

6.24 Supervisors should satisfy themselves that staff members clearly understand what work they are to do, why the work is to be conducted, and what it is expected to accomplish. With experienced staff, supervisors may outline the scope of the work and leave details to assistants. With a less experienced staff, supervisors may have to specify not only techniques for analyzing data but also how to gather it.

6.25 The nature of the review of audit work may vary depending on the significance of the work or the experience of the staff. For example, it may be appropriate to have experienced staff auditors review much of the work of other staff with similar experience.

Compliance With Laws and Regulations

6.26 The third field work standard for performance audits is:

When laws, regulations, and other compliance requirements are significant to audit objectives, auditors should design the audit to provide reasonable assurance about compliance with them. In all performance audits, auditors should be alert to situations or transactions that could be indicative of illegal acts or abuse.

6.27 The following paragraphs elaborate on the requirements of this standard. They also discuss ways auditors obtain information about laws, regulations, and other compliance requirements; and the limitations of performance auditing in detecting illegal acts and abuse.

Illegal Acts and Other Noncompliance

6.28 Auditors should design the audit to provide reasonable assurance about compliance with laws and regulations that are significant to audit

objectives. This requires determining if laws and regulations are significant to the audit objectives or if they are, assessing the risk that significant illegal acts could occur.⁶ Based on that risk assessment, the auditors design and perform procedures to provide reasonable assurance of detecting significant illegal acts.

6.29 It is not practical to set precise standards for determining if laws and regulations are significant to audit objectives because government programs are subject to so many laws and regulations, and audit objectives vary widely. However, auditors may find the following approach helpful in making that determination:

a. Reduce each audit objective to questions about specific aspects of the program being audited (that is, purpose and goals, efforts, program operations, outputs, and outcomes, as discussed in paragraph 6.9).

b. Identify laws and regulations that directly address specific aspects of the program included in the audit objectives' questions.

c. Determine if violations of those laws and regulations could significantly affect the auditors' answers to the questions encompassed in the audit objectives. If they could, then those laws and regulations are likely to be significant to the audit objectives.

6.30 The following are examples of types of laws and regulations that can be significant to the objectives of economy and efficiency audits and of program audits

a. Economy and efficiency: Laws and regulations that could significantly affect the acquisition, protection,

⁶Illegal acts are violations of laws or regulations.

and use of the entity's resources, and the quantity, quality, timeliness, and cost of the products and services it produces and delivers.

b. Program: Laws and regulations pertaining to the purpose of the program, the manner in which it is to be delivered, and the population it is to serve.

6.31 In planning tests of compliance with significant laws and regulations, auditors assess the risk that illegal acts could occur. That risk may be affected by such factors as the complexity of the laws and regulations or their newness. The auditors' assessment of risk includes consideration of whether the entity has controls that are effective in preventing or detecting illegal acts. Management is responsible for establishing effective controls to ensure compliance with laws and regulations. If auditors obtain sufficient evidence of the effectiveness of these controls, they can reduce the extent of their tests of compliance.

6.32 Auditors should be alert to situations or transactions that could be indicative of illegal acts. When information comes to the auditors' attention (through audit procedures, tips, or other means) indicating that illegal acts may have occurred, auditors should consider whether the possible illegal acts could significantly affect the audit results. If they could, the auditors should extend the audit steps and procedures, as necessary, (1) to determine if the illegal acts have or are likely to have occurred and (2) if so, to determine their effect on the audit results.

6.33 Auditors should exercise due professional care in pursuing indications of possible illegal acts so as not to interfere with potential investigations, legal proceedings, or both. Under some circumstances, laws, regulations, or policies require auditors to report indications of certain types of illegal acts to

law enforcement or investigatory authorities before extending audit steps and procedures. Auditors may also be required to withdraw from or defer further work on the audit or a portion of the audit in order not to interfere with an investigation.

6.34 The term noncompliance has a broader meaning than illegal acts. Noncompliance includes not only illegal acts, but also violations of provisions of contracts or grant agreements. Like illegal acts, these other types of noncompliance can be significant to audit objectives. The auditors' considerations in planning and performing tests of compliance with provisions of contracts or grant agreements are similar to those discussed in paragraphs 6.28 through 6.33.

Abuse

6.35 Abuse is distinct from illegal acts and other noncompliance. When abuse occurs, no law, regulation, contract provision, or grant agreement is violated. Rather, the conduct of a government program falls far short of societal expectations for prudent behavior. Auditors should be alert to situations or transactions that could be indicative of abuse. When information comes to the auditors' attention (through audit procedures, tips, or other means) indicating that abuse may have occurred, auditors should consider whether the possible abuse could significantly affect the audit results. If it could, the auditors should extend the audit steps and procedures, as necessary, to determine if the abuse occurred and, if so, to determine its effect on the audit results. However, because the determination of abuse is so subjective, auditors are not expected to provide reasonable assurance of detecting it.

Obtaining
Information About
Laws, Regulations,
and Other
Compliance
Requirements

6.36 Auditors' training, experience, and understanding of the program being audited may provide a basis for recognition that some acts coming to their attention may be illegal. Whether an act, in fact, is illegal is a determination normally beyond auditors' professional capacity. However, auditors are responsible for being aware of vulnerabilities to fraud⁶ associated with the area being audited in order to be able to identify indications that fraud may have occurred. In some circumstances, conditions such as the following might indicate a heightened risk of fraud:

- a. Auditees offer unreasonable explanations to the auditors' inquiries.
- b. Auditees are annoyed at reasonable questions by auditors.
- c. Auditees refuse to provide records.
- d. Auditees refuse to take vacations or accept promotions.

6.37 Auditors may find it necessary to rely on the work of legal counsel in (1) determining those laws and regulations that are significant to the audit objectives, (2) designing tests of compliance with laws and regulations, and (3) evaluating the results of those tests.⁷ Auditors also may find it necessary to rely on the work of legal counsel when audit objectives require testing compliance with provisions of contracts or grant agreements. Depending on the circumstances of the audit, auditors may find it necessary to obtain information on compliance matters from others, such as investigative staff, audit

⁶Fraud is a type of illegal act involving the obtaining of something of value through willful misrepresentation.

⁷Paragraphs 6.14 through 6.16 discuss relying on the work of others.

officials of other government entities that provided assistance to the auditee, or the applicable law enforcement authority.

Limitations of an
Audit

6.38 An audit made in accordance with these standards provides reasonable assurance that its objectives have been achieved; it does not guarantee the discovery of illegal acts or abuse. Nor does the subsequent discovery of illegal acts or abuse committed during the audit period necessarily mean that the auditors' performance was inadequate, provided the audit was made in accordance with these standards.

Management
Controls

6.39 The fourth field work standard for performance audits is:

Auditors should obtain an understanding of management controls that are relevant to the audit. When management controls are significant to audit objectives, auditors should obtain sufficient evidence to support their judgments about those controls.

6.40 Management is responsible for establishing effective management controls. The lack of administrative continuity in government units because of continuing changes in elected legislative bodies and in administrative organizations increases the need for effective management controls.

6.41 Management controls, in the broadest sense, include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring

program performance. The following classification of management controls is intended to help auditors focus on understanding management controls and in determining their significance to the audit objectives.

a. Program operations: Controls over program operations include policies and procedures that management has implemented to reasonably ensure that a program meets its objectives. Understanding these controls can help auditors understand the program operations that convert efforts to outputs.

b. Validity and reliability of data: Controls over the validity and reliability of data include policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports. These controls help assure management that it is getting valid and reliable information about whether programs are operating properly. Understanding these controls can help auditors (1) assess the risk that the data gathered by the entity may not be valid and reliable and (2) design appropriate tests of the data.

c. Compliance with laws and regulations: Controls over compliance with laws and regulations include policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations. Understanding the controls relevant to compliance with those laws and regulations that the auditors have determined are significant can help auditors assess the risk of illegal acts.

d. Safeguarding resources: Controls over the safeguarding of resources include policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse. Understanding these

controls can help auditors plan economy and efficiency audits.

6.42 Auditors can obtain an understanding of management controls through inquiries, observations, inspection of documents and records, or review of other auditors' reports. The procedures auditors perform to obtain an understanding of management controls will vary among audits. One factor influencing the extent of these procedures is the auditors' knowledge about management controls gained in prior audits. Also, the need to understand management controls will depend on the particular aspects of the program the auditors consider in setting objectives, scope, and methodology. The following are examples of how the auditors' understanding of management controls can influence the audit plan.

a. Objectives: Poorly controlled aspects of a program have higher risk of failure, so they may be more significant than others in terms of where auditors would want to focus their efforts.

b. Scope: Poor controls in a certain location may lead auditors to target their efforts there.

c. Methodology: Effective controls over collecting, summarizing, and reporting data may enable auditors to limit the extent of their direct testing of data validity and reliability. In contrast, poor controls may lead auditors to perform more direct testing of the data, look for data from outside the entity, or develop their own data.

6.43 The need to test management controls depends on their significance to the audit objectives. The following are examples of circumstances where management controls can be significant to audit objectives:

a. In determining the cause of unsatisfactory performance if that unsatisfactory performance could result from weaknesses in specific management controls.

b. When assessing the validity and reliability of performance measures developed by the audited entity. Effective management controls over collecting, summarizing, and reporting data will help ensure valid and reliable performance measures.

6.44 Internal auditing is an important part of management control. When an assessment of management controls is called for, the work of the internal auditors can be used to help provide reasonable assurance that management controls are functioning properly and to prevent duplication of effort.

6.45 Considering the wide variety of government programs, no single pattern for internal audit activities can be specified. Many government entities have these activities identified by other names, such as inspection, appraisal, investigation, organization and methods, or management analysis. These activities assist management by reviewing selected functions.

Evidence

6.46 The fifth field work standard for performance audits is:

Sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the auditors' findings and conclusions. A record of the auditors' work should be retained in the form of working papers. Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from

them the evidence that supports the auditors' significant conclusions and judgments.⁸

6.47 Evidence may be categorized as physical, documentary, testimonial, and analytical. Physical evidence is obtained by auditors' direct inspection observation of people, property, or events. Such evidence may be documented in memoranda, photographs, drawings, charts, maps, or physical samples. Documentary evidence consists of create information such as letters, contracts, accounting records, invoices, and management information or performance. Testimonial evidence is obtained through inquiries, interviews, or questionnaires. Analytical evidence includes computations, comparisons, separation of information into components, and rational arguments.

6.48 The guidance in the following paragraphs is intended to help auditors judge the quality and quantity of evidence needed to satisfy audit objectives. Paragraphs 6.49 through 6.52 describe the elements of an audit finding. Paragraphs 6.53 through 6.62 provide guidance to help auditors determine what constitutes sufficient, competent, and relevant evidence to support their findings and conclusions. Finally, paragraphs 6.63 through 6.65 provide guidance on how to document that evidence.

Audit Findings

6.49 Audit findings often have been regarded as containing the elements of criteria, condition, and

⁸The nature of this documentation will vary with the nature of the work performed. For example, when this work includes examination of auditee records, the working papers should describe those records so that an experienced auditor would be able to examine those same records. Auditors may meet this requirement by listing file numbers, case numbers, or other means of identifying specific documents they examined. They are not required to include in the working papers copies of documents examined, nor are they required to list detailed information from those documents.

effect, plus cause when problems are found. However, the elements needed for a finding depend entirely on the objectives of the audit. Thus, a finding or set of findings is complete to the extent that the audit objectives are satisfied and the report clearly relates those objectives to the finding's elements. Criteria are discussed in paragraph 6.11; the other elements of a finding—condition, effect, and cause—are discussed in the following paragraphs.

6.50 Condition is a situation that exists. It has been determined and documented during the audit.

6.51 Effect has two meanings, which depend on the audit objectives. When the auditors' objectives include identifying the actual or potential consequences of a condition that varies (either positively or negatively) from the criteria identified in the audit, "effect" is a measure of those consequences. Auditors often use effect in this sense to demonstrate the need for corrective action in response to identified problems. When the auditors' objectives include estimating the extent to which a program has caused changes in physical, social, or economic conditions, "effect" is a measure of the impact achieved by the program. Here, effect is the extent to which positive or negative changes in actual physical, social, or economic conditions can be identified and attributed to program operations.

6.52 Like effect, cause also has two meanings, which depend on the audit objectives. When the auditors' objectives include explaining why the poor (or good) performance determined in the audit happened, the reasons for that performance are referred to as "cause." Identifying the cause of problems can assist auditors in making constructive recommendations for correction. Because problems can result from a number of plausible factors, the recommendation can be more persuasive if auditors can clearly

demonstrate and explain with evidence and reasoning the link between the problems and the factor or factors they identified as the cause. When the auditors' objectives include estimating the program's effect on changes in physical, social, or economic conditions, they seek evidence of the extent to which the program itself is the "cause" of those changes.

Tests of Evidence

6.53 Evidence should be sufficient, competent, and relevant. Evidence is sufficient if there is enough of it to support the auditors' findings. In determining the sufficiency of evidence it may be helpful to ask such questions as: Is there enough evidence to persuade a reasonable person of the validity of the findings? When appropriate, statistical methods may be used to establish sufficiency. Evidence used to support a finding is relevant if it has a logical, sensible relationship to that finding. Evidence is competent to the extent that it is consistent with fact (that is, evidence is competent if it is valid).

6.54 The following presumptions are useful in judging the competence of evidence. However, these presumptions are not to be considered sufficient in themselves to determine competence.

- a. Evidence obtained from a credible third party is more competent than that secured from the auditee.
- b. Evidence developed under an effective system of management controls is more competent than that obtained where such controls are weak or nonexistent.
- c. Evidence obtained through the auditors' direct physical examination, observation, computation, and inspection is more competent than evidence obtained indirectly.

d. Original documents provide more competent evidence than do copies.

e. Testimonial evidence obtained under conditions where persons may speak freely is more competent than testimonial evidence obtained under compromising conditions (for example, where the persons may be intimidated).

f. Testimonial evidence obtained from an individual who is not biased or has complete knowledge about the area is more competent than testimonial evidence obtained from an individual who is biased or has only partial knowledge about the area.

6.55 Auditors may find it useful to obtain from officials of the auditee written representations concerning the competence of the evidence they obtain. Written representations ordinarily confirm oral representations given to auditors, indicate and document the continuing appropriateness of such representations, and reduce the possibility of misunderstanding concerning the matters that are the subject of the representations.

6.56 The auditors' approach to determining the sufficiency, competence, and relevance of evidence depends on the source of the information that constitutes the evidence. Information sources include original data gathered by auditors and existing data gathered by either the auditee or a third party. Data from any of these sources may be obtained from computer-based systems.

6.57 Data Gathered by Auditors. Data gathered by auditors include the auditors' own observations and measurements. Among the methods for gathering this type of data are questionnaires, structured interviews, direct observations, and computations. The design of these methods and the skill of the auditors applying

them are the keys to ensuring that these data constitute sufficient, competent, and relevant evidence. When these methods are applied to determine cause, auditors are concerned with eliminating rival explanations.

6.58 Data Gathered by the Auditee. Auditors can use data gathered by the auditee as part of their evidence. Auditors may determine the validity and reliability of these data by direct tests of the data. Auditors can reduce the direct tests of the data if they test the effectiveness of the entity's controls over the validity and reliability of the data, and these tests support the conclusion that the controls are effective. The nature and extent of testing of the data will depend on the significance of the data to support auditors' findings.

6.59 When the auditors' tests of data disclose errors in the data, or when they are unable to obtain sufficient, competent, and relevant evidence about the validity and reliability of the data, they may find it necessary to

a. seek evidence from other sources,

b. redefine the audit's objectives to eliminate the need to use the data, or

c. use the data, but clearly indicate in their report the data's limitations and refrain from making unwarranted conclusions or recommendations.

6.60 Data Gathered by Third Parties. The auditors' evidence may also include data gathered by third parties. In some cases, these data may have been audited by others, or the auditors may be able to audit the data themselves. In other cases, however, it will not be practical to obtain evidence of the data's validity and reliability.

6.61 How the use of unaudited third-party data affects the auditors' report depends on the data's significance to the auditors' findings.

6.62 Validity and Reliability of Data From Computer-Based Systems. Auditors should obtain sufficient, competent, and relevant evidence that computer-processed data are valid and reliable when those data are significant to the auditors' findings.⁹ This work is necessary regardless of whether the data are provided to auditors or auditors independently extract them.¹⁰ Auditors should determine if other auditors have worked to establish the validity and reliability of the data or the effectiveness of the controls over the system that produced the data. If they have, auditors may be able to use that work. If not, auditors may determine the validity and reliability of computer-processed data by direct tests of the data. Auditors can reduce the direct tests of the data if they test the effectiveness of general and application controls over computer-processed data, and these tests support the conclusion that the controls are effective.¹¹

⁹When the reliability of a computer-based system is the primary objective of the audit, the auditors should conduct a review of the system's general and application controls.

¹⁰When computer-processed data are used by the auditors, or included in the report, for background or informational purposes and are not significant to the auditors' findings, citing the source of the data and stating that they were not verified will satisfy the reporting standards for accuracy and completeness set forth in this statement.

¹¹A GAO guide, Assessing the Reliability of Computer-Based Data (GAO/OP-8.1.3, September 1990), provides guidance on the following key steps: (1) determining how computer-based data will be used and how they will affect the audit objectives, (2) finding out what is known about the data and the system that produced them, (3) obtaining an understanding of relevant system controls, which can reduce risk to an acceptable level, (4) testing the data for reliability, and (5) disclosing the data source and how data reliability was established or qualifying the report if data reliability could not be established.

Working Papers

6.63 Working papers serve three purposes. They provide the principal support for the auditors' report, aid the auditors in conducting and supervising the audit, and allow others to review the audit's quality. This third purpose is important because audits done in accordance with GAGAS often are subject to review by other auditors and by oversight officials. Working papers allow for the review of audit quality by providing the reviewer written documentation of evidence supporting the auditors' significant conclusions and judgments.

6.64 Working papers should contain

- a. the objectives, scope, and methodology, including any sampling criteria used;
- b. documentation of the work performed to support significant conclusions and judgments; and
- c. evidence of supervisory review of the work performed.

6.65 One factor underlying GAGAS audits is that federal, state, and local governments and other organizations cooperate in auditing programs of common interest so that auditors may use others' work and avoid duplicate audit efforts. Arrangements should be made so that working papers will be made available, upon request, to other auditors. To facilitate reviews of audit quality and reliance by other auditors on the auditors' work, contractual arrangements for GAGAS audits should provide for access to working papers. Audit organizations should also establish reasonable policies and procedures for the safe custody and retention of working papers for a time sufficient to satisfy legal and administrative requirements.

Purpose

7.1 This chapter prescribes standards of reporting for performance audits. The report "contents" and "presentation" standards also apply to some financial related audits, as discussed in chapter 5.

Form

7.2 The first reporting standard for performance audits is:

Auditors should prepare written audit reports communicating the results of each audit.

7.3 Written reports (1) communicate the results of audits to officials at all levels of government, (2) make the results less susceptible to misunderstanding, (3) make the results available for public inspection, and (4) facilitate follow-up to determine whether appropriate corrective actions have been taken. The need to maintain public accountability for government programs demands that audit reports be written.¹

7.4 This standard is not intended to limit or prevent discussion of findings, judgments, conclusions, and recommendations with persons who have responsibilities involving the area being audited. On the contrary, such discussions are encouraged.

7.5 When an audit is terminated prior to completion, auditors should communicate the termination to the auditee and other appropriate officials, preferably in writing. Auditors should also write a memorandum for the record, summarizing the results of the work and explaining why the audit was terminated.

¹Audit reports may be presented on other media that are retrievable by report users and the audit organization. Retrievable audit reports include those which are in electronic or video formats.

Timeliness

7.6 The second reporting standard for performance audits is:

Auditors should appropriately issue the report to make the information available for timely use by management, legislative officials, and other interested parties.

7.7 To be of maximum use, the report must be timely. A carefully prepared report may be of little value to decisionmakers if it arrives too late. Therefore, auditors should plan for the appropriate issuance of the audit report and conduct the audit with this goal in mind.

7.8 The auditors should consider interim reporting during the audit, of significant matters to appropriate officials. Such communication, which may be oral or written, is not a substitute for a final report, but it does alert officials to matters needing immediate attention and permits them to correct them before the final report is completed.

Report Contents

7.9 The third reporting standard for performance audits covers the report contents.

Objectives, Scope, and Methodology

7.10 Auditors should report the audit objectives and the audit scope and methodology.

7.11 Knowledge of the objectives of the audit, as well as of the audit scope and methodology for achieving the objectives, is needed by readers to understand the purpose of the audit, judge the merits of the audit work and what is reported, and understand significant limitations.

7.12 In reporting the audit's objectives, auditors should explain why the audit was made and state

what the report is to accomplish. Articulating what the report is to accomplish normally involves identifying the audit subject and the aspect of performance examined, and because what is reported depends on the objectives, communicating what finding elements are discussed and whether conclusions and recommendations are given.

7.13 To preclude misunderstanding in cases where the objectives are particularly limited and broader objectives can be inferred, it may be necessary to state objectives that were not pursued.

7.14 In reporting the scope of the audit, auditors should describe the depth and coverage of work conducted to accomplish the audit's objectives. Auditors should, as applicable, explain the relationship between the universe and what was audited; identify organizations, geographic locations, and the period covered; report the kinds and sources of evidence; and explain any quality or other problems with the evidence. Auditors should also report significant constraints imposed on the audit approach by data limitations or scope impairments.

7.15 To report the methodology used, auditors should clearly explain the evidence gathering and analysis techniques used. This explanation should identify any significant assumptions made in conducting the audit; describe any comparative techniques applied; describe the criteria used; and when sampling significantly supports auditors' findings, describe the sample design and state why it was chosen.

7.16 Auditors should attempt to avoid misunderstanding by the reader concerning the work that was and was not done to achieve the audit objectives, particularly when the work was limited because of constraints on time or resources.

Audit Results

7.17 Auditors should report significant audit findings, and where applicable, auditors' conclusions.

7.18 Auditors should report the significant finding developed in response to each audit objective.² In reporting the findings, auditors should include sufficient, competent, and relevant information to promote adequate understanding of the matters reported and to provide convincing but fair presentations in proper perspective. Auditors should also report appropriate background information that readers need to understand the findings.

7.19 Audit findings often have been regarded as containing the elements of criteria, condition, and effect, plus cause when problems are found.³ However, the elements needed for a finding depend entirely on the objectives of the audit. Thus, a finding or set of findings is complete to the extent that the audit objectives are satisfied and the report clearly relates those objectives to the finding's elements.

7.20 Auditors should report conclusions when called for by the audit objectives. Conclusions are logical inferences about the program based on the auditor findings. Conclusions should be specified and not left to be inferred by readers. The strength of the audit conclusions depends on the persuasiveness of the evidence supporting the findings and the convincingness of the logic used to formulate the conclusions.

²Audit findings not included in the audit report, because of insignificance, should be separately communicated to the auditee preferably in writing. Such findings, when communicated in a management letter to top management, should be referred to in the audit report. All communications of audit findings should be documented in the working papers.

³See description of the elements of a finding in paragraphs 6.49 through 6.52.

Recommendations

7.21 Auditors should report recommendations for actions to correct problem areas and to improve operations.

7.22 Auditors should report recommendations when the potential for significant improvement in operations and performance is substantiated by the reported findings. Recommendations to effect compliance with laws and regulations and improve management controls should also be made when significant instances of noncompliance are noted or significant weaknesses in controls are found. Auditors should also report the status of uncorrected significant findings and recommendations from prior audits that affect the objectives of the current audit.

7.23 Constructive recommendations can encourage improvements in the conduct of government programs. Recommendations are most constructive when they are directed at resolving the cause of identified problems, are action oriented and specific, are addressed to parties that have the authority to act, are feasible, and, to the extent practical, are cost-effective.

Statement on Auditing Standards

7.24 Auditors should report that the audit was made in accordance with generally accepted government auditing standards.

7.25 The statement of compliance with generally accepted government auditing standards refers to all the applicable standards that the auditors should have followed during the audit. The statement should be qualified in situations in which the auditors did not follow an applicable standard. In these situations, auditors should report in the scope section the applicable standard that was not followed, the reasons therefor, and how not following the standard affected the results of the audit.

Compliance With Laws and Regulations

7.26 Auditors should report all significant instances of noncompliance and all significant instances of abuse that were found during or in connection with the audit. In some circumstances, auditors should report illegal acts directly to parties external to the audit entity.

Noncompliance and Abuse

7.27 When auditors conclude, based on evidence obtained, that significant noncompliance or abuse either has occurred or is likely to have occurred, should report relevant information. The term "noncompliance" comprises illegal acts (violation of laws and regulations)⁴ and violations of provision of contracts or grant agreements. Abuse occurs when the conduct of a government organization, program, activity, or function falls far short of societal expectations for prudent behavior.

7.28 In reporting significant instances of noncompliance, auditors should place their findings in perspective. To give the reader a basis for judging the prevalence and consequences of noncompliance, the instances of noncompliance should be related to the universe or the number of cases examined and quantified in terms of dollar value, if appropriate.

7.29 When auditors detect nonsignificant instances of noncompliance they should communicate them to the auditee, preferably in writing. If the auditors have communicated such instances of noncompliance in a management letter to top management, they should refer to that management letter in the audit report. Auditors should document in their working papers communications to the auditee about noncompliance.

⁴Whether a particular act is, in fact, illegal may have to await final determination by a court of law. Thus, when auditors disclose matters that have led them to conclude that an illegal act is likely to have occurred, they should take care not to imply that they have made a determination of illegality.

Direct Reporting of
Illegal Acts

7.30 Auditors are responsible for reporting illegal acts directly to parties outside the auditee in certain circumstances, as discussed in the following paragraphs. Auditors should fulfill these responsibilities even if they have resigned or been dismissed from the audit.⁵

7.31 The auditee may be required by law or regulation to report certain illegal acts to specified external parties (for example, to a federal inspector general or a state attorney general). If auditors have communicated such illegal acts to the auditee, and it fails to report them, then the auditors should communicate their awareness of that failure to the auditee's governing body. If the auditee does not make the required report as soon as practical after the auditors' communication with its governing body, then the auditors should report the illegal acts directly to the external party specified in the law or regulation.

7.32 Auditors should obtain sufficient, competent, and relevant evidence (for example, by confirmation with outside parties) to corroborate assertions by management that it has reported illegal acts. If they are unable to do so, then the auditors should report the illegal acts directly as discussed above.

7.33 Chapter 6 reminds auditors that under some circumstances, laws, regulations, or policies may require them to report promptly indications of certain types of illegal acts to law enforcement or investigatory authorities. When auditors conclude that this type of illegal act either has occurred or is likely to have occurred, they should ask those authorities and/or legal counsel if reporting certain information about that illegal act would compromise investigative or legal proceedings. Auditors should

⁵Internal auditors auditing within the entity that employs them do not have a duty to report outside that entity.

limit their reporting to matters that would not compromise those proceedings, such as information that is already a part of the public record.

Management
Controls

7.34 Auditors should report the scope of the work on management controls and any significant weaknesses found during the audit.

7.35 Reporting on management controls will vary depending on the significance of any weaknesses found and the relationship of those weaknesses to audit objectives.

7.36 In audits where the sole objective is to audit management controls, weaknesses found of significance to warrant reporting would be considered deficiencies and be so identified in the audit report. The management controls that were assessed should be identified to the extent necessary to clearly present the objectives, scope, and methodology of the audit.

7.37 In a performance audit, auditors may identify significant weaknesses in management controls as a cause of deficient performance. In reporting this finding, the control weaknesses would be described as the "cause."

Views of
Responsible
Officials

7.38 Auditors should report the views of responsible officials of the audited program concerning auditors' findings, conclusions, and recommendations, as well as corrections planned.

7.39 One of the most effective ways to ensure the report is fair, complete, and objective is to obtain advance review and comments by responsible officials and others, as may be appropriate. Include

the views of responsible officials produces a report that shows not only what was found and what the auditors think about it but also what the responsible persons think about it and what they plan to do about it.

7.40 Auditors should normally request that the responsible officials' views on significant findings, conclusions, and recommendations be submitted in writing. When, in these cases, written comments are not obtained, oral comments should be requested.

7.41 Advance comments should be objectively evaluated and recognized, as appropriate, in the report. Advance comments, such as a promise or plan for corrective action, should be noted but should not be accepted as justification for dropping a significant finding or a related recommendation.

7.42 When the comments oppose the report's findings, conclusions, or recommendations, and are not, in the auditors' opinion, valid, the auditors may choose to state their reasons for rejecting them. Conversely, the auditors should modify their report if they find the comments valid.

Noteworthy Accomplishments
7.43 Auditors should report noteworthy accomplishments, particularly when management improvements in one area may be applicable elsewhere.

7.44 Noteworthy management accomplishments identified during the audit, which were within the scope of the audit, should be included in the audit report along with deficiencies. Such information provides a more fair presentation of the situation by providing appropriate balance to the report. In addition, inclusion of such accomplishments may lead

to improved performance by other government organizations that read the report.

Issues Needing Further Study

7.45 Auditors should refer significant issues needing further audit work to the auditors responsible for planning future audit work.

7.46 If, during the audit, auditors identify significant issues that warrant further work, but the issues are not directly related to the audit objectives or the auditors do not have the time or resources to expand the audit to pursue them, they should refer the issue to the auditors within the audit organization who are responsible for planning future audit work. When appropriate, auditors should also disclose the issue in the report and the reasons the issues need further study.

Privileged and Confidential Information

7.47 If certain information is prohibited from general disclosure, auditors should report the nature of the information omitted and the requirement that makes the omission necessary.

7.48 Certain information may be prohibited from general disclosure by federal, state, or local laws or regulations. Such information may be provided on a need-to-know basis only to persons authorized by law or regulation to receive it.

7.49 If such requirements prohibit auditors from including pertinent information in the report, they should state the nature of the information omitted and the requirement that makes the omission necessary. The auditors should obtain assurance that a valid requirement for the omission exists, and, when appropriate, consult with legal counsel.

Report Presentation

7.50 The fourth reporting standard for performance audits is:

The report should be complete, accurate, objective, convincing, and as clear and concise as the subject permits.

Complete

7.51 Being complete requires that the report contain all information needed to satisfy the audit objectives, promote an adequate and correct understanding of the matters reported, and meet the report content requirements. It also means including appropriate background information.

7.52 Giving readers an adequate and correct understanding means providing perspective on the extent and significance of reported findings, such as the frequency of occurrence relative to the number of cases or transactions tested and the relationship of the findings to the entity's operations.

7.53 In most cases, a single example of a deficiency is not sufficient to support a broad conclusion or a related recommendation. All that it supports is that a deviation, an error, or a weakness existed. However, except as necessary to make convincing presentations, detailed supporting data need not be included.

Accurate

7.54 Accuracy requires that the evidence presented be true and that findings be correctly portrayed. The need for accuracy is based on the need to assure readers that what is reported is credible and reliable. One inaccuracy in a report can cast doubt on the validity of an entire report and can divert attention from the substance of the report. Also, inaccurate reports can damage the credibility of the issuing audit

organization and reduce the effectiveness of its reports.

7.55 The report should include only information findings, and conclusions that are supported by competent and relevant evidence in the auditors' working papers. If data are significant to the audit findings and conclusions, but are not audited, the auditors should clearly indicate in their report the data's limitations and not make unwarranted conclusions or recommendations based on those data.

7.56 Reported evidence should demonstrate the correctness and reasonableness of the matters reported. Correct portrayal means describing accurately the audit scope and methodology, and presenting findings and conclusions in a manner consistent with the scope of audit work.

Objective

7.57 Objectivity requires that the presentation of entire report be balanced in content and tone. A report's credibility is significantly enhanced when it presents evidence in an unbiased manner so that readers can be persuaded by the facts.

7.58 The audit report should be fair and not misleading, and should place the audit results in perspective. This means presenting the audit results impartially and guarding against the tendency to exaggerate or overemphasize deficient performance. In describing shortcomings in performance, audit should present the explanation of responsible officials including the consideration of any unusual difficulties or circumstances they faced.

7.59 The tone of reports should encourage decisionmakers to act on the auditors' findings and recommendations. Although findings should be

presented clearly and forthrightly, the auditors should keep in mind that one of their objectives is to persuade, and that this can best be done by avoiding language that generates defensiveness and opposition. Although criticism of past performance is often necessary, the report should emphasize needed improvements.

Convincing

7.60 Being convincing requires that the audit results be responsive to the audit objectives, the findings be presented persuasively, and the conclusions and recommendations follow logically from the facts presented. The information presented should be sufficient to convince the readers to recognize the validity of the findings, the reasonableness of the conclusions, and the benefit of implementing the recommendations. Reports designed in this way can help focus the attention of responsible officials on the matters that warrant attention and can help stimulate correction.

Clear

7.61 Clarity requires that the report be easy to read and understand. Reports should be written in language as clear and simple as the subject permits.

7.62 Use of straightforward, nontechnical language is essential to simplicity of presentation. If technical terms and unfamiliar abbreviations and acronyms are used, they should be clearly defined. Acronyms should be used sparingly.

7.63 Logical organization of material, and accuracy and precision in stating facts and in drawing conclusions, are essential to clarity and understanding. Effective use of titles and captions and topic sentences make the report easier to read and understand. Visual aids (such as pictures, charts,

graphs, and maps) should be used when appropriate to clarify and summarize complex material.

Concise

7.64 Being concise requires that the report be no longer than necessary to convey and support the message. Too much detail detracts from a report, may even conceal the real message, and may confuse or discourage readers. Also, needless repetition should be avoided.

7.65 Although room exists for considerable judgment in determining the content of reports, those that are complete, but still concise, are likely to achieve greater results.

Report Distribution

7.66 The fifth reporting standard for performance audits is:

Written audit reports are to be submitted by the audit organization to the appropriate officials of the auditee and to the appropriate officials of the organizations requiring or arranging for the audits, including external funding organizations, unless legal restrictions prevent it. Copies of the reports should also be sent to other officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations and to others authorized to receive such reports. Unless restricted by law or regulation, copies should be made available for public inspection.

7.67 Audit reports should be distributed in a timely manner to officials interested in the results. Such officials include those designated by law or regulation to receive such reports, those responsible for acting on the findings and recommendations, those of other levels of government who have provided assistance to

the auditee, and legislators. However, if the subject of the audit involves material that is classified for security purposes or is not releasable to particular parties or the public for other valid reasons, auditors may limit the report distribution.

7.68 When nongovernment audit organizations are engaged, the engaging government organization should ensure that the report is distributed appropriately. If the nongovernment audit organization is to make the distribution, the engagement agreement should indicate what officials or organizations should receive the report.

7.69 Internal auditors should follow their entity's own arrangements and statutory requirements for distribution. Usually, they report to their entity's top managers, who are responsible for distribution of the report.

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(October 1999 edition) – dirty

ANNUAL MEDICAID HOME HEALTH / HCB COST REPORT

**SCHEDULE S
HOME HEALTH AGENCY COST REPORT INFORMATION AND CERTIFICATION**

A. Provider Information

PROVIDER NAME:

HHA PROVIDER NO.:

HCB PROVIDER NO.:

Period Covered by Statement:

From:

To:

Address:

City:

State:

Zip Code:

Phone Number:

Fax Number:

Contact Person:

Title:

Phone Number:

B. Type of Control

(Check one)

1. Non-Profit:

Church _____

Other _____

2. Proprietary:

Individual _____

Partnership _____

Corporation _____

3. Government:

State _____

County _____

City _____

Health Dept. _____

C. Certification By Officer, Director or Administrator Of The Agency

MISREPRESENTATION OR FALSIFICATION OF ANY INFORMATION CONTAINED IN THIS COST REPORT MAY BE PUNISHABLE BY CRIMINAL, CIVIL, AND ADMINISTRATIVE ACTION, FINE AND/OR IMPRISONMENT UNDER FEDERAL AND/OR STATE LAW. FURTHERMORE, IF SERVICES IDENTIFIED IN THIS REPORT WERE PROVIDED OR PROCURED THROUGH THE PAYMENT DIRECTLY OR INDIRECTLY OF A KICKBACK OR WERE OTHERWISE ILLEGAL, CIVIL AND ADMINISTRATIVE ACTION, FINES AND/OR IMPRISONMENT MAY RESULT.

CERTIFICATION BY OFFICER, DIRECTOR OR ADMINISTRATOR OF THE AGENCY

I HEREBY CERTIFY that I have read the above statement and that I have examined the accompanying Annual Medicaid Home Health / HCB Cost Report and the Balance Sheet and Statement of Revenue prepared by _____ (Provider name) for the cost report beginning _____ and ending _____ and that to the best of my knowledge and belief, it is a true, correct and complete report prepared from the books and records of the provider in accordance with applicable instructions, except as noted. I further certify that I am familiar with the laws and regulations regarding the provision of health care services, and that the services identified in this cost report were provided in compliance with such laws and regulations.

(Signed) _____

Officer, Director or Administrator

Title

Date

**ANNUAL MEDICAID HOME HEALTH / HCB COST REPORT
SCHEDULE A
RECLASSIFICATION AND ADJUSTMENT OF TRIAL BALANCE OF EXPENSES**

HHA PROVIDER NO.:

HCB PROVIDER NO.:

PROVIDER NAME:

PERIOD:

From:

To:

[illegible]

GENERAL SERVICE COST CENTERS

1. Capital Related - Bldgs. and Fixtures
2. Capital Related - Movable Equipment
3. Plant Operation & Maintenance
4. Transportation
5. Administrative and General

HHA REIMBURSABLE SERVICES

6. Skilled Nursing Care
7. Physical Therapy
8. Occupational Therapy
9. Speech Therapy
10. Medical Social Services
11. Home Health Aide
12. Medical Supplies

HCB REIMBURSABLE SERVICES

13. Client Assessment/Reassessment
14. Case Management
15. Homemaker
16. Personal Care
17. Respite Care
18. Home Adaptation

NONREIMBURSABLE SERVICES

- ADDITIONAL SERVICES**
19. HCB ATTENDANT CARE
20. HCB MODEL WAIVER #2 (16 HOUR)
21. Drugs
22. Durable Medical Equipment
23. Home Dialysis Aide Services
24. Respiratory Therapy
25. Private Duty Nursing
26. Other:
27. Other:
28. **TOTAL**

COMPENSATION ANALYSIS - SALARIES AND WAGES

PROVIDER NAME:

HHA PROVIDER NO.:

HCB PROVIDER NO.:

PERIOD:

From:

To:

GENERAL SERVICE COST CENTERS

1. Capital Related - Bldgs. and Fixtures
2. Capital Related - Movable Equipment
3. Plant Operation & Maintenance
4. Transportation
5. Administrative and General

HHA REIMBURSABLE SERVICES

6. Skilled Nursing Care
7. Physical Therapy
8. Occupational Therapy
9. Speech Therapy
10. Medical Social Services
11. Home Health Aide
12. Medical Supplies

HCB REIMBURSABLE SERVICES

13. Client Assessment/Reassessment
14. Case Management
15. Homemaker
16. Personal Care
17. Respite Care
18. Home Adaptation

NONREIMBURSABLE SERVICES

- DESCRIBE SERVICES**
19. HCB ATTENDANT CARE
20. HCB MODEL WAIVER #2 (16 HOUR)
21. Drugs
22. Durable Medical Equipment
23. Home Dialysis Aide Services
24. Respiratory Therapy
25. Private Duty Nursing
26. Other:
27. Other:
28. TOTAL

[illegible]

EMPLOYEE BENEFITS ANALYSIS - PAYROLL RELATED

PROVIDER NAME:

HHA PROVIDER NO.:

HCB PROVIDER NO.:

PERIOD:

From:

To:

GENERAL SERVICE COST CENTERS

1. Capital Related - Bldgs. and Fixtures
2. Capital Related - Movable Equipment
3. Plant Operation & Maintenance
4. Transportation
5. Administrative and General

HHA REIMBURSABLE SERVICES

6. Skilled Nursing Care
7. Physical Therapy
8. Occupational Therapy
9. Speech Therapy
10. Medical Social Services
11. Home Health Aide
12. Medical Supplies

HCB REIMBURSABLE SERVICES

13. Client Assessment/Reassessment
14. Case Management
15. Homemaking
16. Personal Care
17. Respite Care
18. Home Adaptation

NONREIMBURSABLE SERVICES

19. **HCB ATTENDANT CARE**
20. **HCB MODEL WAIVER #2 (16 HOUR)**
21. **Drugs**
22. **Durable Medical Equipment**
23. **Home Dialysis Aide Services**
24. **Respiratory Therapy**
25. **Private Duty Nursing**
26. **Other:**
27. **Other:**
28. **TOTAL**

[illegible]

ANALYSIS OF TRANSPORTATION EXPENSE

HHA PROVIDER NO.:

PERIOD:

From:

To:

1. Capital Related - Bldgs. and Fixtures
2. Capital Related - Movable Equipment
3. Plant Operation & Maintenance
4. Transportation
5. Administrative and General

6. Skilled Nursing Care
7. Physical Therapy
8. Occupational Therapy
9. Speech Therapy
10. Medical Social Services
11. Home Health Aide
12. Medical Supplies

13. Client Assessment/Reassessment
14. Case Management
15. Homemaking
16. Personal Care
17. Respite Care
18. Home Adaptation

MODEL SERVICES

19. HCB ATTENDANT CARE

20. HCB MODEL WAIVER #2 (16 HOUR)

21. Drugs

22. Durable Medical Equipment

23. Home Dialysis Aide Services

24. Respiratory Therapy

25. Private Duty Nursing

26. Other:

27. Other:

28. TOTAL

ADMINISTRATORS 1	DIRECTORS 2	SUPERVISORS 3	NURSES 4	THERAPISTS 5	AIDES 6	ALL OTHER 7	TOTAL 8

ANNUAL MEDICAID
HOME HEALTH / HCB COST REPORT
SCHEDULE A -4

RECLASSIFICATION TO EXPENSE

Provider Name:
Period:
From:
To:

HHA Provider Number:
HCB Provider Number:

(1)	(2)	(3)	(4)
Description	Line #	Increase	<Decrease>
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			
11.			
12.			
13.			
14.			
15.			
16.			
17.			
18.			
19.			
20.			
21.			
22.			
23.			
24.			
25.			
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31.			
32.			
33.			
34.			
35.			
36.			
37.			
38.			
39.			
40.			
41.			
42.			
43.			
44.			
45.			
46.			
47.			
48.			
49.			
50.			
51. TOTAL			

**ANNUAL MEDICAID
HOME HEALTH / HCB COST REPORT
SCHEDULE A -5
ADJUSTMENTS TO EXPENSES**

Provider Name:

Period:

From:

To:

HHA Provider Number:

HCB Provider Number:

(1) Description	(2) Basis Code	(3) Amount	(4) Line No.
1. Excess funds generated from operations, other than net income	B		
2. Trade, quantity, time and other discounts on purchases	B		
3. Rebates and refunds of expenses.	B		
4. Home Office Costs	A		
5. Adjustments Resulting From	From Wks A -6		
6. Transactions With Related			
7. Organizations			
8.			
9.			
10.			
11.			
12.			
13. Sale Of Medical Records And Abstracts	B		5
14. Income From Imposition Of Interest, Finance Or Penalty Charges	B		5
15. Sale Of Medical And Surgical Supplies To Other Than Patients	A		12
16. Sale Of Drugs To Other Than Patients	A		21
17. Physical Therapy Adjustment	From Supp Wks A-8-3		7
18. Occupational Therapy Adjustment	From Supp Wks A-8-3		8
19. Speech Therapy Adjustment	From Supp Wks A-8-3		9
20. Interest Expense on Medicare and Medicaid overpayments and borrowings to repay medicare and medicaid overpayments	A		
21. Lobbying Activities	A		
22. Interest Income	B		
23. Owner Compensation Limit	A		
24. Administrator Compensation Limit	A		
25.			
26.			
27.			
28.			
29.			
30.			
31.			
32.			
33.			
34. Total (Sum of lines 1-33)			

Basis for adjustment, Column 2.

- A. Cost - if cost, including applicable overhead, can be determined
- B. Amount Received - If cost cannot be determined

**ANNUAL MEDICAID
HOME HEALTH / HCB COST REPORT
SCHEDULE A -6**

STATEMENT OF COSTS OF SERVICES FROM RELATED ORGANIZATIONS

Provider Name:

HHA Provider Number:

Period:

From:

To:

HCB Provider Number:

A. Are there any costs included on Worksheet A which resulted from transactions with related organizations as defined in HCFA Pub. 15-I, chapter 10?

☐ Yes (If "Yes" complete Parts B and C)

☐ No

B. Costs incurred and adjustments required as result of transactions with related organizations:

Location, item and amount included on Worksheet A, Column 8					
Line No.	Cost Center	Expense Items	Amount	Amount Allowable in Cost	Net Adjustments (Col. 4 minus Col. 5)
1	2	3	4	5	6
1					
2					
3					
4					
5					
6					
7					
8					
9 TOTALS (Sum of lines 1-8)					
Transfer Col. 6, lines 1-8 to Worksheet A-5, Col 3, lines 5 -12					

C. Interrelationship of provider to related organization(s):

The Department for Medicaid Services, by virtue of authority granted under KRS XXXXXX, requires the provider to furnish the information requested on Part C of this worksheet.

This information will be used by the Cabinet for Health Services, Department for Medicaid Services, in determining that the costs applicable to services, facilities and supplies furnished by organizations related to the provider by common ownership or control, represent reasonable costs as determined under section 1861 (v)(1) of the Social Security Act and KRS _____. If you do not provide all or any part of the requested information, the cost report will be considered incomplete and not acceptable for purposes of claiming reimbursement under title XIX.

Symbol (1)	Name	Address	Percent Owned By Provider	Percent Ownership of Provider	Type of Business
1					
2					
3					
4					
5					
6					
7					
8					

(1) Use the following symbols to indicate the interrelationship of the provider to related organizations:

- A. Individual has financial interest (stockholder, partner, etc.) in both related organization and provider.
- B. Corporation, partnership or other organization has financial interest in provider.
- C. Provider has financial interest in corporation, partnership, or other organization.
- D. Director, officer, administrator, or key person of provider and related organization.
- E. Individual is director, officer, administrator or key person of provider and related organization.
- F. Director, officer, administrator, or key person of related organization or relative of such person has financial interest in provider.
- G. Other (financial or non financial specify _____)

**ANNUAL MEDICAID
HOME HEALTH / HCB COST REPORT
SCHEDULE A -7**

**STATEMENT OF OWNERS, DIRECTORS, AND ADMINISTRATORS COMPENSATION AND
STATEMENT OF DISCLAIMED COST**

Provider Name:

HHA Provider Number:

Period:

From:

To:

HCB Provider Number:

A. Statement Of Compensation Of Owners

	NAME 1	TITLE OR FUNCTION 2	HOURS WEEKLY EMPLOYED AT AGENCY 3	TOTAL COMPENSA- TION REPORTED 4	OWNER COMPENSA- TION LIMIT 5	OWNERS COMPENSA- TION ADJUSTMENT 6
1.						
2.						
3.						
4.						
5.						
6.	Total (Sum of lines 1 -5) Transfer Col .5, to Schedule A-5, Col 3, line 13.					\$ -

**B. Statement Of Compensation Paid to Administrators or
Directors (Other Than Owners)**

	NAME 1	TITLE 2	PERCENTAGE YEAR EMPLOYED AT AGENCY 3	TOTAL COMPEN- SATION REPORTED 4	ADMINIS- TRATOR COMPEN- SATION LIMIT 5	COMPENSA- TION ADJUSTMENT 6
1.						
2.						
3.						
4.						
5.						
6.						
7.						
8.						
9.	Total (Sum of lines 1 -5) Transfer Col .5, to Schedule A-5, Col 3, line 24.					\$ -

C. Statement of Disclaimed Cost

The following costs have been deemed unallowable in past cost reports. We disagreed with the prior adjustments and have included these costs on this report.

	Description of Cost Col 1	Amount Col 2	Schedule A, Column and Line Col 3
1.			
2.			
3.			
4.			
5.			

ANNUAL MEDICAID HOME HEALTH / HCB COST REPORT

SCHEDULE A-8-3 (1)

Reasonable Cost Determination For Therapy Services Furnished By Outside Suppliers

Provider Name:		HHA Provider No:	Period Beginning:	Period Ending:
CHECK APPLICABLE BOX		<input type="checkbox"/> Physical Therapy	<input type="checkbox"/> Occupational Therapy	<input type="checkbox"/> Speech Pathology
Part I - GENERAL INFORMATION				
1.	Total number of weeks worked (During which outside suppliers (excluding aides) worked)			
2.	Line 1 multiplied by 15 hours per week			
3.	Number of unduplicated HHA visits - Supervisors or therapists (See Instructions)			
4.	Number of unduplicated HHA visits - Therapy assistants (Include only visits made by therapy assistant and on which supervisor and/or therapist was not present during the visit) (See Instructions)			
5.	Standard travel expense rate			
6.	Optional travel expense rate per mile			
7.	Total hours worked	Supervisors 1	Therapists 2	Assistants 3
8.	AHSEA (See Instructions)			Aides 4
9.	Standard travel allowance (Cols 1 and 2, one-half of col 2, line 8; col 3 one-half of col 3, line 8)			
10.	Number of travel hours (HHA only)			
11.	Number of miles driven (HHA only)			
Part II - SALARY EQUIVALENCY COMPUTATIONS				
12.	Supervisors (Col 1, line 7 times col 1, line 8)			
13.	Therapists (Col 2, line 7 times col 2, line 8)			
14.	Assistants (Col 3, line 7 times col 3, line 8)			
15.	Subtotal Allowance Amount (Sum of lines 12 - 14)			
16.	Aides (Col 4, line 7 times col 4, line 8)			
17.	Total Allowance Amount (Sum of lines 15 and 16)			
If the sum of cols 1 - 3, line 7, is greater than line 2, make no entries on lines 18 and 19 and enter on line 20 the amount from line 17. Otherwise, complete lines 18 - 20.				
18.	Weighted average rate excluding aides (Line 15 divided by the sum of cols 1 - 3, line 7)			
19.	Weighted allowance excluding aides (Line 2 times line 18)			
20.	Total Salary Equivalency (Line 17 or sum of lines 16 plus 19)			
Part III - TRAVEL ALLOWANCE AND TRAVEL EXPENSE COMPUTATION - HHA SERVICES				
Standard Travel Allowance and Standard Travel Expense				
21.	Therapists (Line 3 times column 2, line 9)			
22.	Assistants (Line 4 times column 3, line 9)			
23.	Subtotal (Sum of lines 21 and 22)			
24.	Standard Travel Expense (Line 5 times sum of lines 3 and 4)			
Optional Travel Allowance and Optional Travel Expense				
25.	Therapists (Sum cols 1 and 2, line 10 times col 2, line 8)			
26.	Assistants (Col 3, line 10 times Col 3, line 8)			
27.	Subtotal (Sum of lines 30 and 31)			
28.	Optional Travel Expense (Line 6 times sum of cols 1 - 3, line 11)			
Total Travel Allowance and Travel Expense - HHA Services; Complete one of the following three lines 34, 35 or 36, as appropriate.				
29.	Standard Travel Allowance and Standard Travel Expense (Sum of lines 23 and 24 - See Instructions)			
30.	Optional Travel Allowance and Standard Travel Expense (Sum of lines 27 and 24 - See Instructions)			
31.	Optional Travel Allowance and Optional Travel Expense (Sum of lines 27 and 28 - See Instructions)			

**ANNUAL MEDICAID HOME HEALTH / HCB COST REPORT
SCHEDULE A-8-3 (2)**

Reasonable Cost Determination For Therapy Services Furnished By Outside Suppliers

Provider Name:	HHA Provider No:	Period Beginning:	Period Ending:
----------------	------------------	-------------------	----------------

CHECK APPLICABLE BOX

☐ Physical Therapy

☐ Occupational Therapy

☐ Speech Pathology

Part IV - OVERTIME COMPUTATION

Description		Therapists 1	Assistants 2	Aides 3	TOTAL 4
32.	Overtime hours worked during cost reporting period (if col 4, line 32, is zero or equal to or greater than 2,080, do not complete lines 33 - 40 and enter zero in each column of line 41)				
33.	Overtime rate (Multiply the amounts in cols 2 - 4, line 8 (AHSEA) times 1.5)				
34.	Total overtime (Including base and overtime allowance) (Multiply line 32 by line 33)				
Calculation of Limit					
35.	Percentage of overtime hours by category (Divide the hours in each column on line 37 by the total overtime worked - col. 4, line 37)				
36.	Allocation of provider's standard work year for one full-time employee times the percentages on line 40 (See Instructions)				
Determination of Overtime Allowance					
37.	Adjusted hourly salary equivalency amount (AHSEA) (From Part II, cols 2 - 4, line 8)				
38.	Overtime cost limitation (Line 41 times line 42)				
39.	Maximum overtime cost (Enter the lesser of line 39 or line 43)				
40.	Portion of overtime already included in hourly computation at the AHSEA (Multiply line 37 by line 42)				
41.	Overtime allowance (Line 44 minus line 45 - if negative enter zero) (Col 4, sum of cols 1 - 3)				

PART V - COMPUTATION OF THERAPY LIMITATION AND EXCESS COST ADJUSTMENT

42.	Salary equivalency amount (from Part II, line 20)	
43.	Travel allowance and expense - HHA services (from Part III, lines 29, 30 or 31)	
44.	Overtime allowance (from Part IV, col. 4, line 41)	
45.	Equipment cost (See instructions)	
46.	Supplies (See instructions)	
47.	Total Allowance (Sum of lines 42 - 46)	
48.	Total cost of outside supplier services (from provider records)	
49.	Excess over limitation (line 48 minus line 47 - transfer amount to line A-5, line 17, 18, or 19 as applicable - if negative, enter zero --see instructions)	

COST ALLOCATION - GENERAL SERVICE COST

HCB PROVIDER NO.:

PERIOD:

To:

GENERAL SERVICE COST CENTERS

1. Capital Related - Bldgs. and Fixture
2. Capital Related - Movable Equipment
3. Plant Operation & Maintenance
4. Transportation
5. Administrative and General

HHH REIMBURSABLE COST CENTER

6. Skilled Nursing Care
7. Physical Therapy
8. Occupational Therapy
9. Speech Therapy
10. Medical Social Services
11. Home Health Aide
12. Medical Supplies

HCB REIMBURSABLE COST CENTERS

13. Client Assessment/Reassessment
14. Case Management
15. Homemaker
16. Personal Care
17. Respite Care
18. Home Adaptation

NONREIMBURSABLE SERVICES

9. HCB ATTENDANT CARE WAIVER
0. HCB MODEL WAIVER #2 (16 HOUR)

1. Drugs
2. Durable Medical Equipment
3. Home Dialysis Aide Service
4. Respiratory Therapy
5. Private Duty Nursing
5. OTHER: _____
7. OTHER: _____
8. TOTAL _____

COST ALLOCATION - STATISTICAL BASIS

HCB PROVIDER NO.:

To:

[illegible]

GENERAL SERVICE COST CENTERS

1. Capital Related - Bldgs. and Fixture
2. Capital Related - Movable Equipment
3. Plant Operation & Maintenance
4. Transportation
5. Administrative and General

HHA REIMBURSABLE COST CENTERS

6. Skilled Nursing Care
7. Physical Therapy
8. Occupational Therapy
9. Speech Therapy
10. Medical Social Services
11. Home Health Aide
12. Medical Supplies

HCB REIMBURSABLE COST CENTERS

13. Client Assessment/Reassessment
14. Case Management
15. Homemaker
16. Personal Care
17. Respite Care
18. Home Adaptation

NONREIMBURSABLE SERVICES

19. HCB ATTENDANT CARE WAIVER
20. HCB MODEL WAIVER #2 (16 HOUR)
21. Drugs
22. Durable Medical Equipment
23. Home Dialysis Aide Service
24. Respiratory Therapy
25. Private Duty Nursing
26. OTHER: _____
27. OTHER: _____
28. TOTAL _____
29. Cost To Be Allocated (Schedule B)
30. Unit Cost Multiplier

**ANNUAL MEDICAID HOME HEALTH/HCB COST REPORT
SCHEDULE C
APPORTIONMENT OF HOME HEALTH PATIENT SERVICES**

PROVIDER NAME:

HHA PROVIDER NO.:

PERIOD:

From:

To:

Part I:

COST PER VISIT COMPUTATION Patient Services	From Sch B Col. 6, Line:	Total		Average Cost Per Visit	XVIII Cost Limits	XIX Cost Limits	Title XIX Visits	Computation of the lesser of Medicaid Cost or the aggregate of the Medicare or Medicaid limitation		
		Cost	Visits					Average	XVIII	XIX
		1	2	3	4	5	6	7	8	9
1. Skilled Nursing	6									
2. Physical Therapy	7									
3. Speech Therapy	8									
4. Occupational Therapy	9									
5. Medical Social Services	10									
6. Home Health Aid Services	11									
7. Total (Sum of Lines 1- 6)										
8. Total Cost (Lesser of Col. 7, 8, 9)										

Part II:

COST PER VISIT COMPUTATION Patient Services	From Sch B Col. 6, Line:	Total		Average Cost Per Visit	XVIII Cost Limits	XIX Cost Limits	Title XIX Visits	Computation of the lesser of Medicaid Cost or the aggregate of the Medicare or Medicaid limitation		
		Cost	Visits					Average	XVIII	XIX
		1	2	3	4	5	6	7	8	9
1. Skilled Nursing	6									
2. Physical Therapy	7									
3. Speech Therapy	8									
4. Occupational Therapy	9									
5. Medical Social Services	10									
6. Home Health Aid Services	11									
7. Total (Sum of Lines 1- 6)										
8. Total Cost (Lesser of Col. 7, 8, 9)										
9. Total XIX Visits (Line 7, Col 8, Part I + Line 7, Col 8, Part II)										

Part III:

MEDICAL SUPPLIES COMPUTATION

	Cost From Sch. B, Col 6, Ln.	Total Charges From HHA Records	Ratio Col.1 / Col. 2	XIX Charge	XIX Cost
	1	2	3	4	5
1. Medical Supplies					
2. Total Cost Of HHA Services (Part 1, Line 8, Col 9, Part II, Line 8, Col 9, Part III, Line 1, Col 5)					

ANNUAL MEDICAID HOME HEALTH /HCB COST REPORT

SCHEDULE D

CALCULATION OF HOME HEALTH REIMBURSEMENT SETTLEMENT

PROVIDER NAME:

HHA PROVIDER NO.:

PERIOD:

From:

To:

Part I - Computation Of The Lesser Of Reasonable
Cost Or Customary Charges

1. Cost Of Services (From Schedule C, Part III, Line 2)
2. Total Charges For Title XIX Services (From PCL's)
3. Excess Of Reasonable Cost Over Customary
Charges (Complete Only If Line 1 Exceeds Line 2)

Part II Computation Of Reimbursement Settlement

4. Total Reasonable Cost (From Line 1)
5. Excess Reasonable Cost (From Line 3)
6. Subtotal (Line 4 Minus Line 5)
7. Amounts Rec'd From TFL/Other Sources (PCL's)
8. Amounts Rec'd From The Medicaid Program (PCL's)
9. Amount Received As Incentive Payments (PCL's)
10. Total Interim Payments (Line 7 plus 8 minus 9)
11. Balance Due Provider/Medicaid Program
(Line 6 minus 10) (Indicate Overpayments In Parentheses)

ANNUAL MEDICAID HOME HEALTH /HCB COST REPORT
SCHEDULE E
APPORTIONMENT OF PATIENT HCB SERVICE COSTS AND CALCULATION OF REIMBURSEMENT SETTLEMENT

PROVIDER NAME:

HCB PROVIDER NO.:

PERIOD:

From:

To:

<u>Patient Service</u>		Amounts (Sch B Col 7)	Total Units/Visits	Average Cost Per Unit/Visit	XIX Cost Limits	XIX Unit/Visits	<u>Cost of Service</u>	
		2	3	4	5	6	Average	XIX
		7	8					
Part I Visits before 7/1								
1.	Client Assessment							
2.	Case Management							
3.	Homemaker							
4.	Personal Care							
5.	TOTAL (Sum of lines 1 - 4)			XXXXXXXXXX	XXXXXXXXXX			
6.	Allowable Costs Of Patient Services (Lesser of Line 5, Column 7 or Column 8)							
Part II Visits after 7/1								
7.	Client Assessment							
8.	Case Management							
9.	Homemaker							
10.	Personal Care							
11.	TOTAL (Sum of Lines 7 - 10)			XXXXXXXXXX	XXXXXXXXXX			
12.	Allowable Costs Of Patient Services (Lesser of Line 11, Column 7 or Column 8)					XXXXXXXXXX		
13.	Total Visits (Line 5 plus Line 11, Column 6)							
Part III Respite and Minor Home Adaptation Costs								
14.	Total Allowable Costs/Charges For Respite Care Services							
15.	Total Allowable Costs/Charges For Minor Home Adaptation Services							
Part IV Calculation Of Reimbursement Settlement								
16.	Reimbursable Costs (Sum of Column 8, Line 6 and Line 12)							
17.	Total Charges For Waiver Program Services From PCL's (Less Respite & Home Adaptation)							
18.	Reimbursable Cost (Lesser of Lines 16 or 17)							
19.	Respite And Minor Home Adaptation (Line 14 plus Line 15)							
20.	Total Medicaid Cost (Line 18 plus Line 19)							
21.	Amount Received From Medicaid For Waiver Program Services							
22.	Continuing Income Or TPL						XXXXXXXXXX	
23.	Balance Due (Program)/Provider (Line 20 minus Lines 21 and 22)						XXXXXXXXXX	

INTRODUCTION

These instructions are intended to guide providers in preparing the annual cost report. These forms shall be used by all participating home health agencies. Some schedules shall not be required for all providers and these need not be completed. However, the entire cost report shall be submitted to Medicaid Services. Schedules, which do not apply, shall be marked accordingly, and brief explanation as to why these are not needed shall be annotated on appropriate schedules.

In completing the schedules, the period beginning and period ending, the provider name, Medicaid identification number and address shall be indicated on the cover page. In addition, the provider name and inclusive dates covered by this cost report shall be indicated on each page. Facilities shall submit a cost report prepared on the accrual basis of accounting principles. Also, in completing the schedules, reductions to expenses shall always be shown in brackets.

The Trial Balance of the agency shall be included with the submission of the Annual HHA/ HCB Medicaid Annual Cost Report.

SCHEDULE S - HOME HEALTH AGENCY COST REPORT INFORMATION STATISTICAL AND CERTIFICATION

A. Provider Information.

Home Health Agency Information -- Enter the requested information in the space provided. Include the name of the agency, the Medicaid identification numbers, phone and fax numbers, contact person and title. Enter the beginning and ending dates of the period covered by this cost report.

B. Type of Control- Check the appropriate line for items 1 through 3.

1. Non-Profit Indicate by checking appropriate line - Church or Other.
2. Proprietary Organization - Check if the Home Health Agency is owned and operated by an individual or a business corporation. The organization may be a sole proprietorship, partnership (including limited partnership and joint stock company) or corporation.
3. Official (Governmental Agency) - Check if the Home Health Agency is administered by a state, county, city, or health department. Indicate the type of official agency by checking the appropriate line.

C. Certification by Officer, Director or Administrator of the Agency.

This form shall be read and signed by an officer or director of the Home Health Agency. Sections 1877(a) (1) of the Social Security Act state that, "Whoever knowingly and willfully makes or causes to be made any false statement or representation of material fact in any application for any benefit or payment under this title--shall (1) in the case of such a statement, representation, concealment, failure or conversion by any person in connection with the furnishing (by that person) of items or services for which payment is or may be made under this title, be guilty of a felony and upon conviction thereof fined not more than \$25,000 or imprisoned for not more than five (5) years, or both, or in the case of such statement, representation, concealment, failure or conversion by any other person, be guilty of a misdemeanor and upon conviction thereof fined not more than \$10,000 or imprisoned for not more than one (1) year or both."

SCHEDULE A - RECLASSIFICATION AND ADJUSTMENT OF TRIAL BALANCE OF EXPENSES

This schedule provides for recording of direct costs such as salaries, fringe benefits, transportation and contracted services, as well as other costs to arrive to identifiable agency costs in Column 9. Also, it provides for the reclassification and adjustments to certain accounts. The total direct expenses before grouping, reclassifications and adjustments are obtained from the provider's records.

The cost centers on this schedule are listed in a manner which facilitates the sequential listing of accounts and array of expense accounts for transfer of the various cost center data from Schedules A-1, A-2, A-3.

The costs to be entered in Columns 1 through 5 are only those actual costs incurred by or for the Home Health Agency for which the cost report is prepared. If true reporting entity is a certified "sub unit" of a State Health Department, the amounts to be entered shall be only those amounts that are directly applicable to the "sub unit." The aggregation and reallocation of costs at the state level shall not be acceptable.

Column 1 SALARIES.-- The expenses listed in this column obtained from Worksheet A-1. The sum of column 1 must equal Worksheet A-1, column 9, line 29.

Column 2: EMPLOYEE BENEFITS.-- The expenses listed in this column are obtained from Worksheet A-2. The sum of column 2 must equal Worksheet A-2, column 9, line 29.

Column 3: TRANSPORTATION.-- Enter on each line other than line 4 the cost of public transportation or the amount paid to employees for the use of private vehicles only when these costs can be identified and directly assigned to a particular cost center.

Where the agency owns (or rents its vehicles, this cost should be entered on line 4 in the transportation cost center and allocated during the cost finding process.

The transportation cost is reported in this manner so that the identifiable costs can be recorded where applicable and the

unidentifiable costs will be allocated during cost finding.

- Column 4: CONTRACTED/PURCHASED SERVICES.-- The expenses listed in this column are obtained from Schedule A-3. The sum of column 4 must equal Schedule A-3 , column 9, line 29.
- Column 5: OTHER COSTS.-- Enter on the applicable lines in column 5 all agency costs which have not been reported in columns 1 through 4 from the agency's books and records.
- Column 6: Total Agency Cost.--Add the amounts in columns 1 through 5 for each cost center and enter the totals in column 6.
- Column 7: RECLASSIFICATIONS OF EXPENSE.--Enter in this column any reclassifications among the cost center expenses in column 6, which are needed to amend expenses appropriate in the particular agency's circumstances. Reductions to expense should be shown in parentheses (). The reclassification of expenses in this column is the net total of the entries obtained from Schedule A-4. The total of this column shall equal zero.
- Column 8: ADJUSTMENTS TO EXPENSE.--Enter in this column any adjustments to the expenses in column 6, which are needed to amend expenses appropriate to a particular agency's circumstances to comply with applicable state and federal law and regulations. These expenses shall be obtained from Schedule A-5. The total of this column shall be equal to of Schedule A-5 column 3, line 36.
- Column 9: Enter the Sum of Columns 6, 7, and 8.

SCHEDULE A-1 - COMPENSATION ANALYSIS - SALARIES AND WAGES

The expenses on this schedule shall be those amount paid or accrued on the records of the provider. These amounts shall be those expenses for which a Federal Form W-2 was issued to the employee.

- Column 1: Enter amounts for administrators. If a single administrator this amount shall be entered on line 5.
- Column 2: Enter amounts for directors.
- Column 3: Enter amounts for supervisors.
- Column 4: Enter amounts for Licensed Registered Nurses.
- Column 5: Enter amounts for Licensed Therapists and Licensed Therapy Assistants.
- Column 6: Enter amounts for Aides.
- Column 7: Enter amounts for all others not included in columns 1 through 6.
- Column 8: Enter the total of each line for columns 1 through 7. Enter these amounts on the corresponding lines on Schedule A, Column 1.

SCHEDULE A-2 - EMPLOYEE BENEFITS ANALYSIS - PAYROLL RELATED

The employee benefits expense on this schedule shall be those amount paid or accrued on the records of the provider. These amounts shall be those expenses, which directly correspond to the employees as listed on Schedule A-1.

- Column 1: Enter amounts for administrators. If a single administrator this amount shall be entered on line 5.
- Column 2: Enter amounts for directors.
- Column 3: Enter amounts for supervisors.
- Column 4: Enter amounts for Licensed Registered Nurses.
- Column 5: Enter amounts for Licensed Therapists and Licensed Therapy Assistants.
- Column 6: Enter amounts for Aides.
- Column 7: Enter amounts for all others not included in columns 1 through 6.
- Column 8: Enter the total of each line for columns 1 through 7. Enter these amounts on the corresponding lines on Schedule A, Column 2.

SCHEDULE A-3 - TRANSPORTATION

The transportation expense on this schedule shall be those amount paid or accrued on the records of the provider. These amounts shall be those expenses, which directly correspond to the employees as listed on Schedule A-1

- Column 1: Enter amounts for administrators. If a single administrator this amount shall be entered on line 5.
- Column 2: Enter amounts for directors.
- Column 3: Enter amounts for supervisors.
- Column 4: Enter amounts for Licensed Registered Nurses.
- Column 5: Enter amounts for Licensed Therapists and Licensed Therapy Assistants.
- Column 6: Enter amounts for Aides.
- Column 7: Enter amounts for all others not included in columns 1 through 6.
- Column 8: Enter the total of each line for columns 1 through 7. Enter these amounts on the corresponding lines on Schedule A, Column 2.

SCHEDULE A-4 - RECLASSIFICATIONS TO EXPENSE

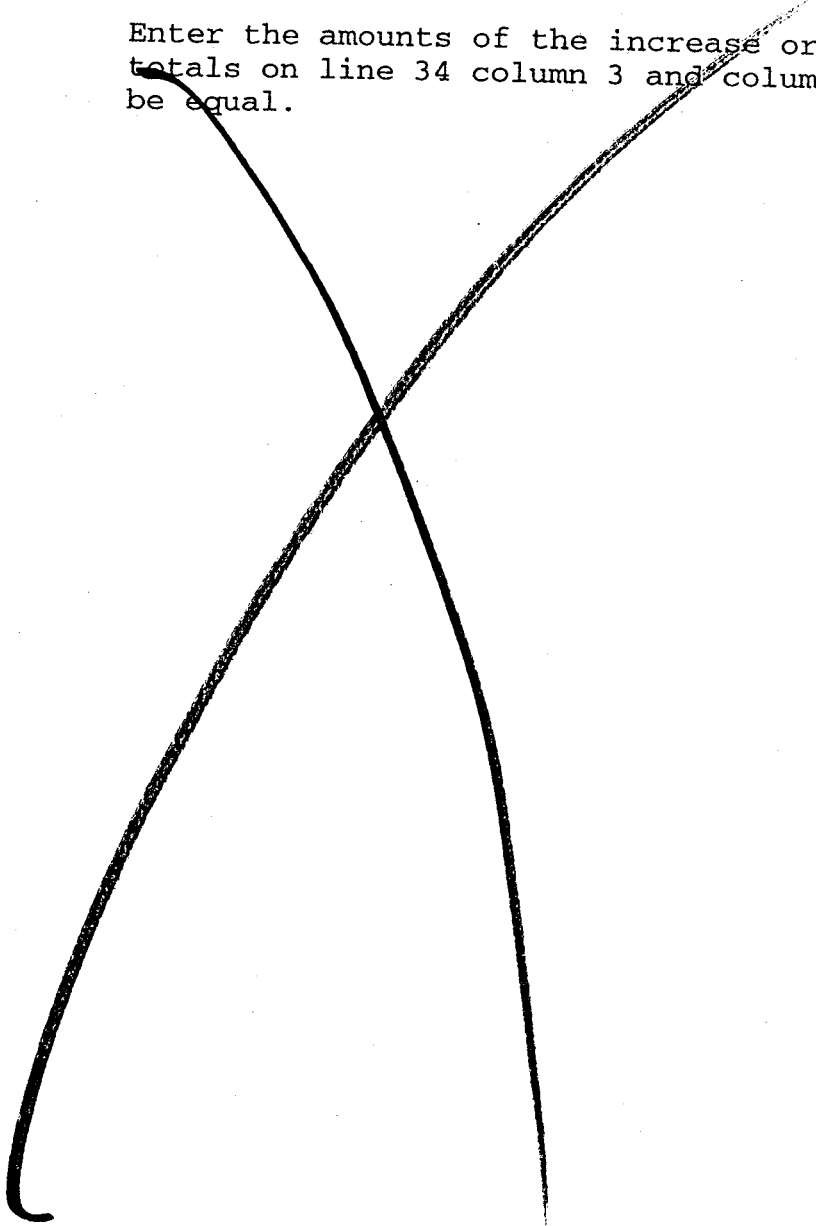
This schedule provides for the reclassification of expense accounts to effect proper cost allocation under cost finding. The following are examples of costs, which shall be reclassified:

- A. Licenses and Taxes (Other Than Income Taxes) - This expense consists of the business license expense and tax expense incidental to the operation of the agency. These expenses shall be included in the Administrative and General (A & G) cost centers, Schedule A, line 5.
- B. Interest - Short-term interest expense relates to borrowings for agency operations. The full amount of this cost shall be reclassified to Administrative and General, Schedule A, line 5.
- C. Insurance - Malpractice, Insurance and Other -Reclassify these insurance expenses to Administrative and General, Schedule A, line 5. Malpractice insurance may be reclassified directly to the applicable cost centers (other than A & G) only if the insurance policy specifically and separately identifies the premium for each cost center involved.
- D. If a provider purchases services (e.g., physical therapy) under arrangements for Medicaid patients, but does not purchase the services under arrangements for non-Medicaid patients, the providers' books shall reflect only the cost of the Medicaid services. However, if the provider does not use the "grossing up" technique for purposes of allocating overhead, and incurs related direct costs applicable to all patients, Medicaid and non-Medicaid (e.g., paramedics or aides who assist a physical therapist in performing physical therapy services), the related costs shall be reclassified from the Home Health Agency reimbursable service cost center and allocated as part of administrative and general expense.
- E. Leases - This expense consists of all rental costs of buildings and equipment incidental to the operation of the Home Health Agency. Any lease which cannot be identified to a special cost center and is incidental to the general overall operation of the agency shall be included in Administrative and General, Schedule A, line 5.
- F. The cost of medical supplies purchased during the applicable cost reporting years and remaining in inventory should be reclassified from Schedule A. Line 12 to Line 5.

Column 1: Indicate the description of item to be reclassified on lines 1 through 33.

Column 2: Indicate line number from Schedule B where reclassification is entered.

Column 3 and 4: Enter the amounts of the increase or decrease. totals on line 34 column 3 and column 4 shall be equal.



SCHEDULE A-5 - ADJUSTMENTS TO EXPENSE

This schedule provides for the adjustments to the expense listed on Schedule A, Column 8. These adjustments shall be made on the basis of "cost" or revenue received" as indicated by the symbols entered in Column 2 "A" for cost or "B" for revenue received. Line descriptions indicate the more common activities, which affect allowable cost, or result in costs incurred for reasons other than patient care and, thus, requires adjustments. Use this schedule to enter any adjustments to expenses that are the result of differences between regulations and the records of the provider.

If an adjustment to an expense affects more than one (1) cost center, the adjustments to expense shall reflect the adjustment to each cost center on a separate line on Schedule A-5.

Types of items to be entered on Schedule A-5 shall be: (1) those needed to adjust expenses to reflect actual expenses incurred; (2) those items which constitute recovery of expenses through sales, charges, fees, grants, gifts, etc.; (3) those items needed to adjust expenses in accordance with Medicaid principles of reimbursement; and (4) those items which are provided for separately in the cost apportionment process. Hospital-based facilities shall adjust their cost on this schedule to agree with cost on HCFA Form 2552, Worksheet H-5, Column 6.

Column 1	Line Descriptions:
Line 1	Excess funds generated from operations, other than net income.
Line 2	Trade Quantity, Time and Other Discounts on Purchases
Line 3	Rebates and Refunds of Expenses
Line 4	Home Office Costs - Enter on this line allowable home office cost which have been allocated to the provider. If home office costs are submitted, provider shall submit a copy of the home office cost report.
Line 5 - 12	Adjustments Resulting from Transactions with Related Organizations - The amount to be entered on this line shall be obtained from Schedule A-6, Part B, Column 6.
Line 13	Sale of Medical Records and Abstracts - Enter the amount received from the sale of medical

records and abstracts and offset the amount against the Administrative and General costs.

Line 14 Income from Imposition of Interest, Finance or Penalty Charges - Enter on this line the cash received imposition of interest, finance or penalty charges on overdue receivables. This income shall be used to offset the allowable Administrative and General costs.

Line 15 Sale of Medical and Surgical Supplies to Other than Patients. This income shall be used to offset the allowable Medical Supply cost.

Line 16 Sale of Drugs to Other than Patients this income shall be used to offset the allowable cost of drugs.

Line 17 Physical Therapy Adjustment - If Home Health Agency purchases physical therapy services furnished by an outside supplier; Schedules A-8-3(1) and A-8-3(2) shall be completed to compute the reasonable cost determination. Enter on this line any adjustment (Excess cost over Limitations) from Schedule A-8-3(2), Part V, line 49. Enter this amount as a negative number.

Line 18 Occupational Therapy Adjustment - If Home Health Agency purchases occupational therapy services furnished by an outside supplier; Schedules A-8-3(1) and A-8-3(2) shall be completed to compute the reasonable cost determination. Enter on this line any adjustment (Excess cost over Limitations) from Schedule A-8-3(2), Part V, line 49. Enter this amount as a negative number.

Line 19 Speech Therapy Adjustment - If Home Health Agency purchases speech therapy services furnished by an outside supplier; Schedules A-8-3(1) and A-8-3(2) shall be completed to compute the reasonable cost determination. Enter on this line any adjustment (Excess cost over Limitations) from Schedule A-8-3(2), Part V, line 49. Enter this amount as a negative number.

Line 20 Interest Expense on Borrowing to Repay Medicaid Overpayments

Line 21 Lobbying Activities. These shall include costs incurred directly and/or the proportionate share

incurred by an organization of which the provider is a member reflected in dues assessments.

Line 22 Offset of Investment Income

Line 23 Owner Compensation Limit. Adjustments Resulting from limits imposed by regulation on the compensation allowable as cost borne by the program. Owner's Compensation Adjustment - The amount to be entered on this line shall be obtained from Schedule A-7, Part A, Column 5.

Line 24 Administrator Compensation Limit. Adjustments Resulting from limits imposed by regulation on the compensation allowable as cost borne by the program. Administrator Compensation Adjustment - The amount to be entered on this line shall be obtained from Schedule A-7, Part B, Column 5.

Line 25-33 Enter on these lines any additional adjustments, which are required which affect proper cost allocation of expenses. The lines shall be appropriately labeled to indicate the nature of the required adjustments.

Column 2: On each line enter an "A" if the amount in Column 3 is actual cost or a "B" if the amount in Column 3 is the revenue received for the item in Column 1.

Column 3: On each line indicate the amount to be adjusted.

Column 4: Indicate the line number on Schedule A that is to be adjusted.

SCHEDULE A-6 - STATEMENT OF COSTS OF SERVICES FROM RELATED ORGANIZATIONS

- A. Section A is provided to show whether the amount of costs to be reimbursed by the Medicaid Program includes costs resulting from services, facilities, and supplies furnished to the facility by organizations related to the facility by common ownership or control. Section A shall be completed by all facilities.
- B. Section B is provided to show the total compensation paid for the period for sole proprietors, partners, and corporation officers, as owner(s) of the Home Health Agency. Compensation shall be defined as the total benefit received (or receivable) by the owner for the services he provides to the institution. It shall include salary amount paid for managerial, administrative, professional and other services; amounts paid by the agency for the personal benefit of the owner; and the cost of the assets and services, which the owner receives, from the agency and deferred compensation.
- C. Section C is provided to show total compensation paid to each employed person(s) to perform duties as administrators or assistant administrators. List: each administrator or assistant administrator who has been employed during the fiscal period. List the name, title, percent of customary workweek devoted to business, percent of the fiscal period employed, and total compensation for the period.

SCHEDULE A-7 - STATEMENT OF OWNERS, DIRECTORS, AND ADMINISTRATORS
COMPENSATION AND STATEMENT OF DISCLAIMED COST

This schedule provides for the determination of allowable compensation of owners as limited by regulation.

Section A:

Column 1:	List Name of owner as defined by KAR _____.
Column 2:	List Title and Function of owner.
Column 3:	List the number of hours weekly employed at the Agency.
Column 4:	Enter the amount of compensation reported on Schedule A. This should include all amounts received or accrued, and amounts employee benefits in excess of those provided to all employees.
Column 5:	Enter the amount of reported compensation that exceeds the limit as published by Kentucky Administrative Regulation. Transfer these amounts to Schedule A-5, Col. 1, line 23.

Section B: Statement of Compensation Paid to Administrators or Directors (Other Than Owners)

This schedule provides for the determination of allowable compensation of administrators and directors (other than Owners) as limited by regulation.

Column 1: List Name of the administrator or director.

Column 2: List Title and Function of Administrator or Director

Column 3: List the percentage of year employed at the Agency.

Column 4: Enter the amount of compensation reported on Schedule A. This should include all amounts received or accrued, and amounts

employee benefits in excess of those provided to all employees.

Column 5: Enter the amount of reported compensation that exceeds the limit as published by Kentucky Administrative Regulation. Transfer these amounts to Schedule A-5, Col. 3, line 24.

Section C: Statement of Disclaimed Cost

This schedule provides for the disclosure of cost deemed unallowable in a past cost report included in allowable cost on this report regulation.

Column 1: Enter a description of the cost deemed unallowable in a prior report included on this report.

Column 2: Enter the amount of the included cost.

Column 3: Enter the Schedule A, Column and Line where the cost was included.

**Schedule A-8-3 (1) - REASONABLE COST DETERMINATION FOR THERAPY SERVICES
FURNISHED BY OUTSIDE SUPPLIERS**

Information required on this schedule provides, in the aggregate, all data for therapy services either physical therapy, occupational therapy and/or speech pathology services furnished by all outside suppliers in determining the reasonableness of therapy costs. (See HCFA Pub.15-I, chapter 14.) (See 42 CFR §413.106.)

Complete this schedule once for each type of therapy service furnished by an outside supplier.

If you contract with an outside supplier for therapy services, the potential for limitation and the amount of payment you receive depends on several factors:

- An initial test to determine whether these services are categorized as intermittent part time or full time services;
- The location where the services are rendered, i.e., HHA home visit;
- For HHA services, whether detailed time and mileage records are maintained by the contractor and HHA;

Add-ons for supervisory functions, aides, overtime, equipment, and supplies; and

- Intermediary determinations of reasonableness of rates charged by the supplier compared with the going rates in the area.

Part I - GENERAL INFORMATION

This part provides for furnishing certain information concerning therapy services furnished by outside suppliers.

Line 1--For services performed at the patient's residence, count only those weeks during which services were rendered by supervisors, therapists, or assistants to patients of the HHA. (See HCFA Pub. 15-I, chapter 14.)

Line 2--Multiply the amount on line 1 by 15 hours per week. This calculation is used to determine whether services are full time or intermittent part time.

Line 3--Enter the number of unduplicated HHA visits made by the supervisor or therapist. Only count one visit when both the supervisor and therapist were present during the same visit.

Line 4--Enter the number of unduplicated HHA visits made by the therapy assistant. Do not include in the count the visits when either the supervisor or therapist were present during the same visit.

Line 5--Enter the standard travel expense rate applicable. (See HCFA Pub. 15-I, chapter 14.)

Line 6--Enter the optional travel expense rate applicable. (See HCFA Pub. 15-I, chapter 14.) Use this rate only for home health patient services for which time records are available.

Line 7--Enter in the appropriate columns the total number of hours worked for therapy supervisors, therapists, therapy assistants, and aides furnished by outside suppliers.

Line 8--Enter in each column the appropriate adjusted hourly salary equivalency amount (AHSEA). This amount is the prevailing hourly salary rate plus the fringe benefit and expense factor described in HCFA Pub. 15-I, chapter 14. This amount is determined on a periodic basis for appropriate geographical areas and is published as an exhibit at the end of HCFA Pub. 15-I, chapter 14. Use the appropriate exhibit for the period of this cost report.

Enter in column 1 the supervisory AHSEA, adjusted for administrative and supervisory responsibilities. Determine this amount in accordance with the provisions of HCFA Pub. 15-I, §1412.5. Enter in columns 2, 3, and 4 (for therapists, assistants, and aides respectively) the AHSEA from either the appropriate exhibit found in HCFA Pub. 15-I, chapter 14 or from the latest publication of rates. If the going hourly rate for assistants in the area is unobtainable, use no more than 75 percent of the therapist AHSEA. The cost of services of a therapy aide or trainee is evaluated at the hourly rate, not to exceed the hourly rate paid to your employees of comparable classification and/or qualification, e.g., nurses' aides. (See HCFA Pub. 15-I, §1412.2.)

Line 9--Enter the standard travel allowance equal to one half of the AHSEA. Enter in columns 1 and 2 one half of the amount in column 2, line 8. Enter in column 3 one half of the amount in column 3, line 8. (See HCFA Pub. 15-I, §1402.4.)

Lines 10 and 11--Enter the number of travel hours and number of miles driven, respectively, if time records of visits are kept. (See HCFA Pub. 15-I, §§1402.5 and 1412.6.)

NOTE: There is no travel allowance for aides employed by outside suppliers.

Part II - SALARY EQUIVALENCY COMPUTATIONS

This part provides for the computation of the full time or intermittent part time salary equivalency.

When you furnish therapy services from outside suppliers to Medicaid patients but simply arrange for such services for non health care program patients and do not pay the other Medicaid portion of such services, your books reflect only the cost of the health care program portion. Where you can gross up costs and charges in accordance with provisions of HCFA Pub. 15-I, §2314, complete Part II, lines 12 through 17 and 20 in all cases and lines 18 and 19, where appropriate. However, where you cannot gross up costs and charges, complete lines 12 through 17 and 20.

Lines 12 through 17--To compute the total salary equivalency allowance amounts, multiply the total hours worked (line 7) by the adjusted hourly salary equivalency amount for supervisors, therapists, assistants, and aides.

Lines 18 and 19--If the sum of hours in columns 1 through 3, line 7, is less than or equal to the product found on line 2, complete these lines. (See the exception above where you cannot gross up costs and charges, and services are provided to program patients only.)

Line 20--If there are no entries on lines 18 and 19, enter the amount on line 17. Otherwise, enter the sum of the amounts on lines 16 and 19.

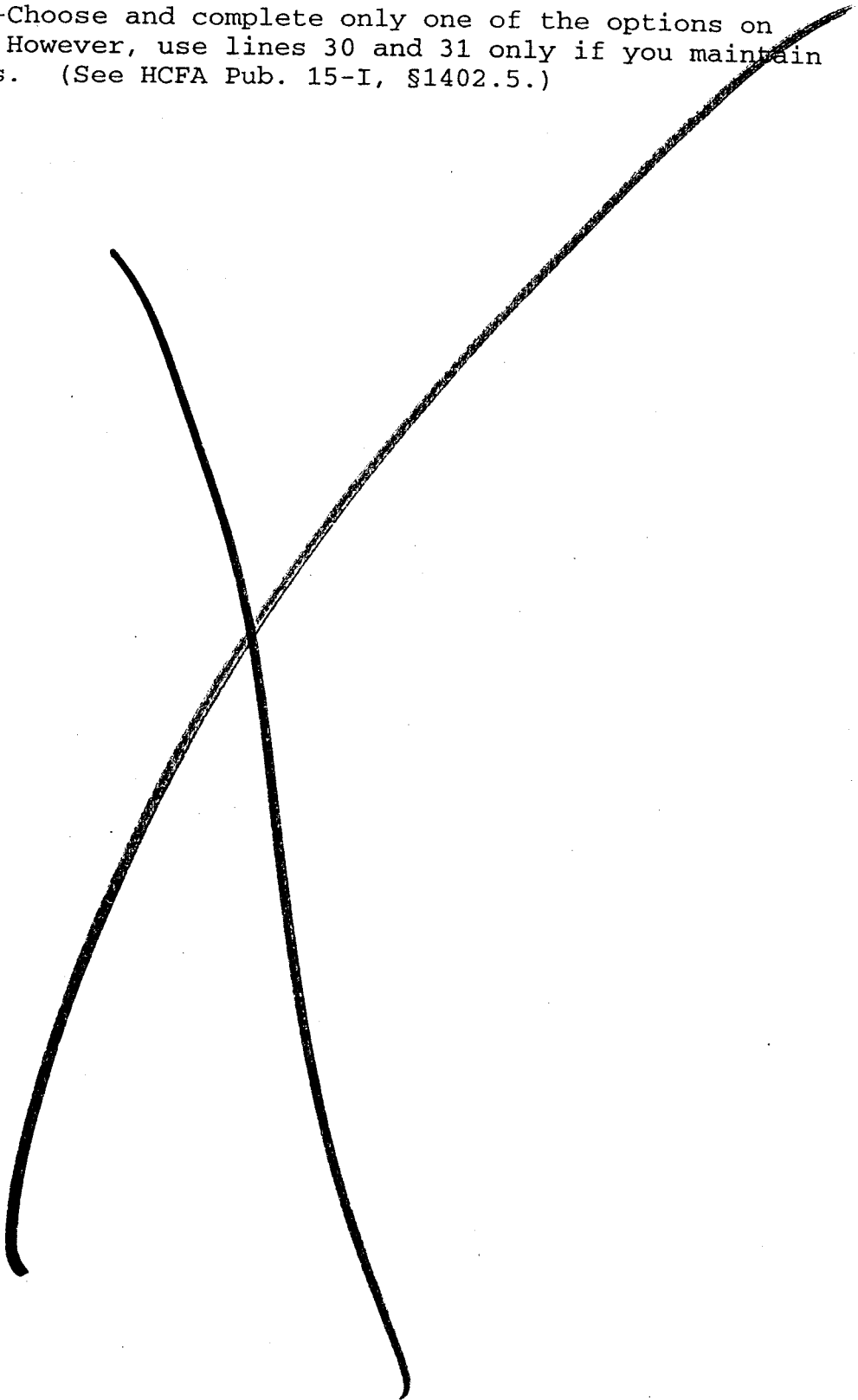
Part III - TRAVEL ALLOWANCE AND TRAVEL EXPENSE COMPUTATION - HHA SERVICES

This part provides for the computation of the standard travel allowance, the standard travel expense, the optional travel allowance, and the optional travel expense. (See HCFA Pub. 15-I, §§1402ff, 1403.1 and 1412.6.)

Lines 21 through 24--Complete these lines for the computation of the standard travel allowance and standard travel expense for therapy services performed in conjunction with HHA visits. Use these lines only if you do not use the optional method of computing travel. A standard travel allowance is recognized for each visit to a patient's residence. If services are furnished to more than one patient at the same location, only one standard travel allowance is permitted, regardless of the number of patients treated.

Lines 25 through 28--Complete the optional travel allowance and optional travel expense computations for therapy services in conjunction with home health services only. Compute the optional travel allowance on lines 25 through 27. Compute the optional travel expense on line 28.

Lines 29 through 31--Choose and complete only one of the options on lines 29 through 31. However, use lines 30 and 31 only if you maintain time records of visits. (See HCFA Pub. 15-I, §1402.5.)



**Schedule A-8-3 (2)--REASONABLE COST DETERMINATION FOR THERAPY SERVICES
FURNISHED BY OUTSIDE SUPPLIERS**

Part IV: OVERTIME COMPUTATION

This part provides for the computation of an overtime allowance when an individual employee of the outside supplier performs services for you in excess of your standard work week. No overtime allowance is given to a therapist who receives an additional allowance for supervisory or administrative duties. (See HCFA Pub. 15-I, §1412.4.)

Line 32--Enter in the appropriate columns the total overtime hours worked. Where the total hours in column 4 are either zero or equal to or greater than 2080, the overtime computation is not applicable. Make no further entries on lines 33 through 40. Enter zero in each column of line 41. Enter the sum of the hours recorded in columns 1 through 3 in column 4.

Line 33--Enter in the appropriate column the overtime rate (the AHSEA from line 8, column as appropriate, multiplied by 1.5).

Line 35--Enter the percentage of overtime hours by class of employee. Determine this amount by dividing each column on line 32 by the total overtime hours in column 4, line 32.

Line 36--Use this line to allocate your standard work year for one full time employee. Enter the numbers of hours in your standard work year for one full time employee in column 4. Multiply the standard work year in column 4 by the percentage on line 35 and enter the result in the corresponding columns.

Line 37--Enter in columns 1 through 3 the AHSEA from Part I, line 10, columns 2 through 4, as appropriate.

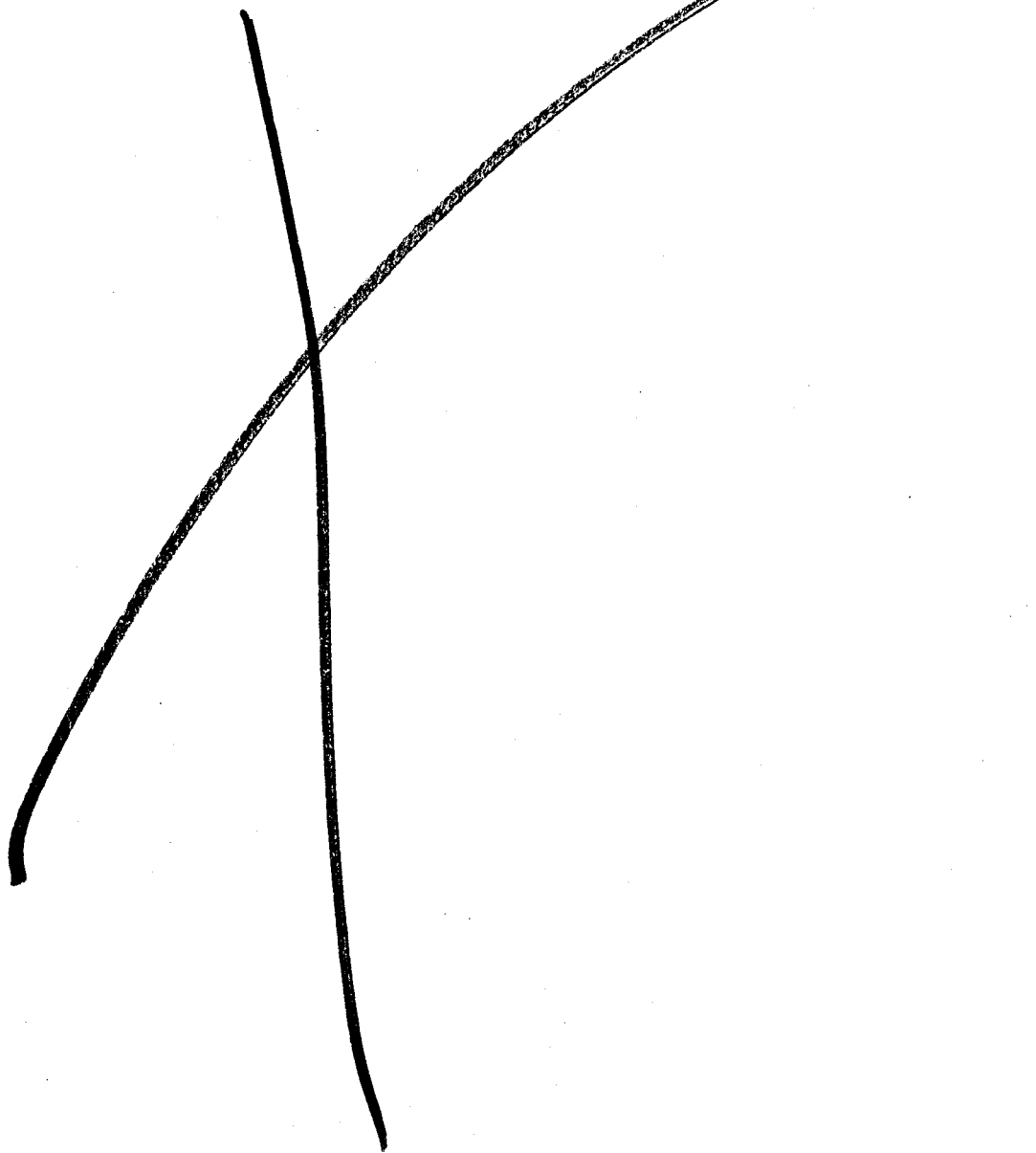
Part V - COMPUTATION OF THERAPY LIMITATION AND EXCESS COST ADJUSTMENT

This part provides for the calculation of the adjustment to therapy service costs in determining the reasonableness of therapy cost.

Lines 45 and 46--When the outside supplier provides the equipment and supplies used in furnishing direct services to your patients, the actual cost of the equipment and supplies incurred by the outside supplier (as specified in HCFA Pub. 15-I, §1412.1) is considered an additional allowance in computing the limitation.

Line 48--Enter the amounts paid and/or payable to the outside suppliers for therapy services rendered during the period as reported in the cost report. This includes any payments for supplies, equipment use, overtime, or any other expenses related to supplying therapy services for you.

Line 49--Enter the excess cost over the limitation, i.e., line 48 minus line 47. Transfer this amount to Worksheet A-5, line 17 for physical therapy services, line 18 for occupational therapy services and line 19 for speech pathology services. If the amount is negative, enter a zero.



SCHEDULE B - COST ALLOCATION - GENERAL SERVICE COST

Schedule B in conjunction with Schedule B-1 provide for simplified cost finding. The simplified cost-finding methodology provides for allocating general service (overhead) costs directly to revenue producing and non-reimbursable cost centers.

Column 1: Enter the direct costs associated with the services listed on lines 17 through 33, Column 3, Schedule B.

Column 2, 3, and 4: Multiply the unit cost multiplier on Schedule C by the detail on Schedule C. The products shall be entered on the corresponding lines on C-1.

Column 5: The sum of Columns 1, 2, 3, and 4.

Column 6: Multiply the unit cost multiplier on Schedule C, Column 4, by the detail on Schedule C, Column 4.

Column 7: Enter sum of lines 5 and 6 for each service area and transfer amounts in Column 7, lines 17 through 23, before and after, to Schedule D, Column 2, and Column 7, Lines 24 through 27, before and after, to Schedule E, Column 2.

Column 7: Line 28 and 29 to Schedule E, Part III, column 6, line 14 and 15.

SCHEDULE B-1 - COST ALLOCATION - STATISTICAL BASIS

Schedule B-1: This schedule shall be used to provide the statistics necessary for the allocation of general services costs among the service areas on Schedule B.

Column 1: Enter in Column 1, the total square feet of the building and fixtures applicable to the cost center to which depreciation shall be allocated on Lines 17 through 33.

Line 34 shall be the total of lines 17 through 33.

Line 35 shall be the total of Line 1, 3, 4, 10, 11, and 14, Column 6, Schedule B.

Line 36, divide line 35 by line 34 and enter the amount on line 36.

Column 2: Enter in column 2, the mileage for each service area on Lines 17 through 33.

Line 34 shall be the total lines 17 through 33.

Line 35 shall be the total of lines 2, 5, and 13, Column 6, Schedule B.

Line 36, divide line 35 by line 34 and enter the amount on line 36.

Column 3: Enter in Column 3 the gross salaries paid to employees in each service area on Lines 18 through 33.

Line 34 is the total of lines 17 through 33.

Line 35 is the total of line 7, Column 6, Schedule B.

Line 36, divide line 35 by line 34 and enter the amount on line 36.

Column 4: Enter in Column 4, accumulated costs on lines 17 through 33, Column 5, Schedule C-i.

Line 34 is the total of lines 17 through 33, Column 4. Line 35 is the total of lines 8, 9, 12, 15, and 16, Schedule B.

Line 36, divide line 35 by line 34; enter the resulting unit cost multiplier on line 36.

SCHEDULE C - APPORTIONMENT OF HOME HEALTH PATIENT SERVICES

This schedule provides for the apportionment of Home Health patient service costs to Medicaid Services only. In addition, this schedule provides for the application of Medicare and Medicaid cost limitations, if applicable, to each Home Health Agency's total allowable cost in determining the Medicaid reimbursable cost.

The computation of Medicaid reimbursable cost shall be determined by utilizing the lower of the average cost per visit, Medicare cost limits, or Medicaid cost limits compared on an aggregate basis.

Column 2 - Amounts - Enter in column 2 the amount for each discipline from Schedule C-1, column. , lines as indicated in Column 1.

Column 3 - Enter the total agency visits from statistical data Schedule A, Column 1, for each type of discipline on lines 1 through 6.

Column 4 - This is the average cost per visit for each type of discipline. Divide the cost (column 2) by number of visits (column 3) for each discipline.

Column 5 - Enter Medicare cost limits from the Medicare notification letter for each discipline, lines 1 through 6.

Column 6 - Enter Medicaid cost limits as specified in the appropriate reimbursement letter for each discipline, lines 1 through 6, if applicable.

Column 8 - Enter Medicaid Program Visits for each discipline, lines 1 through 6.

Column 9 - Multiply the average cost per visit (column 4) by the Medicaid visits (column 8) for each discipline, lines 1 through 6 and enter the product in column 9.

Column 10 - Multiply the Medicare cost limits (column 5) by the Medicaid visits (column 8) for each discipline, lines 1 through 6 and enter the product in column 10.

Column 11 - Multiply the Medicaid cost limits (column 6) by the Medicaid visits (column 8) for each discipline, lines 1 through 6 and enter the product in column 11.

Line 7 Sum of lines 1 through 6 for appropriate column.

Line 8 Enter the lesser of column 9, column 10, or column 11, line 7.

Part II - Cost Per Visit Computation (for visits with service dates on or after 7/1)

See instructions for Part 1, columns 2 through 1.

Line 8 Enter the lesser of column 9, column 10, or column 11, line 7.

Line 9 Enter the total visits from Part I, line 7, Column 8 and Part II, line 7, Column 8.

PART III - Medical Supplies Computation

Column 1 Enter cost from line 17, column 7, Schedule C-1.

Column 2 Enter total charges from facility records.

Column 3 Divide amount in column 1 by amount in column 2.

Column 4 Enter Medicaid charges, column 5, Line 1, Multiply ratio in column 3 by amount in column 4.

Column 5 Multiply ratio in column 3 by amount in column 4.

Column 5, Add amount in column 11, line 8, Part Line 2 1, column 11, line 8, Part II, and column 5, line 1, Part III.

Schedule D - Calculation of Reimbursement Settlement

Part I, Computation of the Lesser of Reasonable Cost or Customary Charges

- Line 1 Cost of services from Schedule D, Part III, line 2, column 5.
- Line 2 Amount of Medicaid charges.
- Line 3. If line 1 is greater than line 2, enter the excess cost on line 3, if applicable.

Part II, Computation of Reimbursement Settlement

- Line 4 Enter total reasonable cost from line 1.
- Line 5 Enter excess reasonable cost from line 3, if applicable.
- Line 6 Subtract lines 5 from line 4.
- Line 7 Enter amounts received from third party payors.
- Line 8 Enter amounts received from the Medicaid Program.
- Line 9 Enter incentive payment (determined by utilizing data from the applicable Medicaid Paid Claims Listings and rate notices issued to provider on July 1.)
- Line 10 Enter total interim payments (lines 7+8-9)
- Line 11 Enter balance due Provider or Medicaid Program (line 6-10) . Indicate overpayments in parentheses ().

Schedule E - Apportionment of HCB Patient Service Costs and Calculation of Reimbursement Settlement

Part I, Cost Per Visit Computation (for Visits with service dates prior to July 1)

Column 2 - Enter amount in Column 2 from Schedule C-1, Column 7, for each discipline in Column 1.

Column 3 - Enter in Column 3, lines 1 through 4 total units\visits from Schedule A, Column 1, lines 7-10, for each discipline.

Column 4 - Compute the average cost per visit for each type of discipline. Divide the number of visits (Column 3) into the cost (Column 2 for each discipline of service on lines 1 through 4.

Column 5 - Enter the Medicaid Cost Limits per discipline. (The Department for Medicaid Services shall furnish the limits to the HHA effective July 1 of each year.)

Column 6 - Enter the Title XIX units\visits from the Medicaid Paid Claims Listings on lines 1 through 4.

Column 7 - Multiple the average cost per visit (column 4) by the Title XIX Visits (Column 6) for each discipline, lines 1 through 4 and enter the product in Column 7.

Column 8 - Multiple the Title XIX Cost Limits (column 5) by the Title XIX Visits (column 6) for each discipline, lines 1 through 4 and enter the product in Column 8.

Part II - Cost Per Visit Computation (for visits with service dates after July 1)

Column 2 - Enter amount in Column 2 from Schedule C-1, Column 7, for each discipline as indicated in Column 1.

Column 3 - Enter in Column 3, lines 7 through 10 total units\visits from Schedule A, Column 1, lines 7-10 for each discipline.

Column 4 - Compute the average cost per visit for each type of discipline. Divide the number of visits (Column 3) into the cost (Column 2) for each discipline of service on lines 7 through 10.

Column 5 - Medicaid Cost Limits - Enter the Medicaid Cost Limits per discipline as indicated or average cost.

Column 6 - Enter the Title XIX units\visits from the Medicaid Paid Claims Listings on lines 7 through 10.

Column 7 - Multiple the average cost per visit (column 4) by the Title XIX Visits (Column 6) for each discipline, lines 7 through 10 and enter the product in Column 7.

Column 8 - Multiple the Title XIX Cost Limits (Column 5) by the Title XIX Visits (Column 6) lines 7 through 10 and enter the produce in Column 8.

Part III - Respite Care and Minor Home Adaptation Calculation

Line 14, Column 6 - Enter allowable cost for Respite Care from Schedule C-1, Line 28, Column 7.

Line 14, Column 7 - Enter Respite Care Charges from Medicaid Paid Claim Listings.

Line 14, Column 8 - Enter lesser of Line 14, Column 6 or Column 7.

Line 15, Column 6 - Enter allowable cost for Minor Home Adaptation from Schedule C-1, Line 29, Column 7.

Line 15, Column 7 - Enter Minor Home Adaptation Charges from Medicaid Paid Claims Listings. Line 15, Column 8 - Enter lesser of Line 15, Column 6 or Column 7.

Part IV - Calculation of Reimbursement Settlement

Line 16 = Enter sum of Lines 6 and 12. Column 8.

Line 17 - Enter total charges for Waiver Program (excluding Respite and Home Adaptation) from Paid Claims Listing.

Line 18 - Reimbursable Cost. Enter the lesser of Line 16 or Line 17.

Line 19 - Reimbursable Respite and Home Adaptation Cost. Enter the sum of Lines 14 and 15. Column 8.

Line 20 - Total Medicaid Cost. Sum of Lines 18 and 19.

Line 21 - Enter amount received from the Program for Waiver Program services from the Medicaid Paid Claim Listings.

Line 22 - Enter Continuing Income or TPL from the Medicaid Paid Claim Listings.

Line 23 - Enter Balance Due Program\Vendor (line 20 minus lines 21 and 22) . Indicate overpayments in parentheses ().